

FOREWORD BY HIS WORSHIP THE MAYOR HONOURABLE CLLR V F HLABISA

Last year we gave an elaborate account of how we have moved since our inauguration or assumption of duties as Hlabisa Council. In our IDP Budget Roadshows we indicated our achievements and challenges on critical economic and development indicators. In this Annual Report, we humbly submit to our people; whom we have served diligently thus far to further fulfil the promises we made when we took over: We maintain that we remain fully accountable to the people. The Annual Report therefore, will trace back our footprints to where it began, when we put before our people, a people's contract to create work and fight poverty.

The people have expressed their choice of government and we should all respect their choice. The task for all of us now is to get down to the business of doing that for which we have been elected, which is to bring more quality service delivery to our people in the most cost-effective and efficient manner.

Our governing purpose is to ensure that all the people of Hlabisa have opportunity, services and security. We are concerned with achieving real changes in people's lives.

Our mission Council is to provide innovative and strategic leadership for service excellence, good governance, integrated planning and sustainable development. Our municipality will continue to pursue creative and innovative ways of improving the financial, administrative and service delivery capacity, particularly in the area of Integrated Development Planning, financial management and revenue collection. We believe that services such as water, electricity, roads, sanitation and refuse removal are indispensable in making an immediate and positive impact on the lives of our people.

I wish to take this opportunity to convey my appreciation to the staff and management for their commitment and dedication to service delivery.

I thank you.

CLLR V F HLABISA – THE MAYOR

COMPONENT B : EXECUTIVE SUMMARY

1.1 MUNICIPAL MANAGER'S OVERVIEW - Foreword from the Office of the Municipal Manager

The local municipality of Hlabisa can boast about its pristine natural ambience and high agricultural, heritage and tourism potential as key economic drivers. There are three traditional councils namely, Hlabisa, Matshamnyama and Mdletshe, key areas being Hlabisa, Mpembeni, Phaphasi, Nhlwathi, Mansiya etc.

It will be recalled that 2012/13 financial year marked the commencement of the third generation of Integrated Development Planning (2012-2017). Coupled with the previous sentence the Local Municipality of Hlabisa undergone a drastic change and was downsized from a total number of 19 wards to 08 municipal ward, administratively this transmission meant transferring of amongst other things, assets, working resources, personnel to our sibling municipality i.e. Mtubatuba Local Municipality. Despite the previous content the municipality continued to put focus and strive towards administration that recognises international, national, provincial, district, local policies and legislative directives thereby ensuring both horizontal and vertical alignment.

Furthermore, the apt functioning of a Municipality strongly correlates on efficiency and effectiveness of resources which include the personnel and the tools/mechanisms being employed to address set targets in order to achieve the vision of the council. Without dwelling on challenges however, summarily it can be mentioned that as a predominately, a remote Municipality with huge population which is largely dependent on grant funding from especially the National Treasury via the assistance of the Auditor-General, sector departments, state agencies etc. and we are also not generating much revenue due to the lack of business infrastructure. This gradually results minimises our ability of maximised service delivery as the needs of our people are more than the revenue we have. Other challenges are lack of housing, high illiteracy rate, human capital incapacity challenges, silo strategic and implementation, infrastructure maintenance, high rate of unemployment, poor debt collection and poverty.

During this audit period we have ensured that we fulfil our constitutional mandate as enshrined in the provisions of the Constitution of the Republic of South Africa, chapter 7 (Act No. 108 of 1996) read in conjunction with the Local Government: Municipal Systems Act, Chapter 4 (Act No. 32 of 2000). This was put

into practise by employing the concept of *“planning with the people and not planning for the people”*, i.e. making use and involvement of diverse municipal structures, community participation, entrepreneur fraternity and government sector departments.

I wish to convey and file my sincere thanks to all who have under the trying circumstances demonstrated their commitment and inputted to make a meaningful contribution insuring that the lives of Hlabisa citizens are bettered and also ensuring that the administration issues raised by the Auditor General in the last audit period are attended to and thereby enhanced, to mention but a few, the Honourable Mayor, Deputy Mayor, Speaker of Council, all honourable councillors, traditional leadership, staff members, our communities, key and strategic partners. Whilst I believe that there was improvement, I believe there is still a room to improve and advance the municipality by ensuring efficient utilisation of limited resources that must be distributed across our wide community *“do more, with less”* concept.

Acting Municipal Manager

Mr. S.N. Zikhali

1.2. MUNICIPAL FUNCTIONS, POPULATION AND ENVIRONMENTAL OVERVIEW

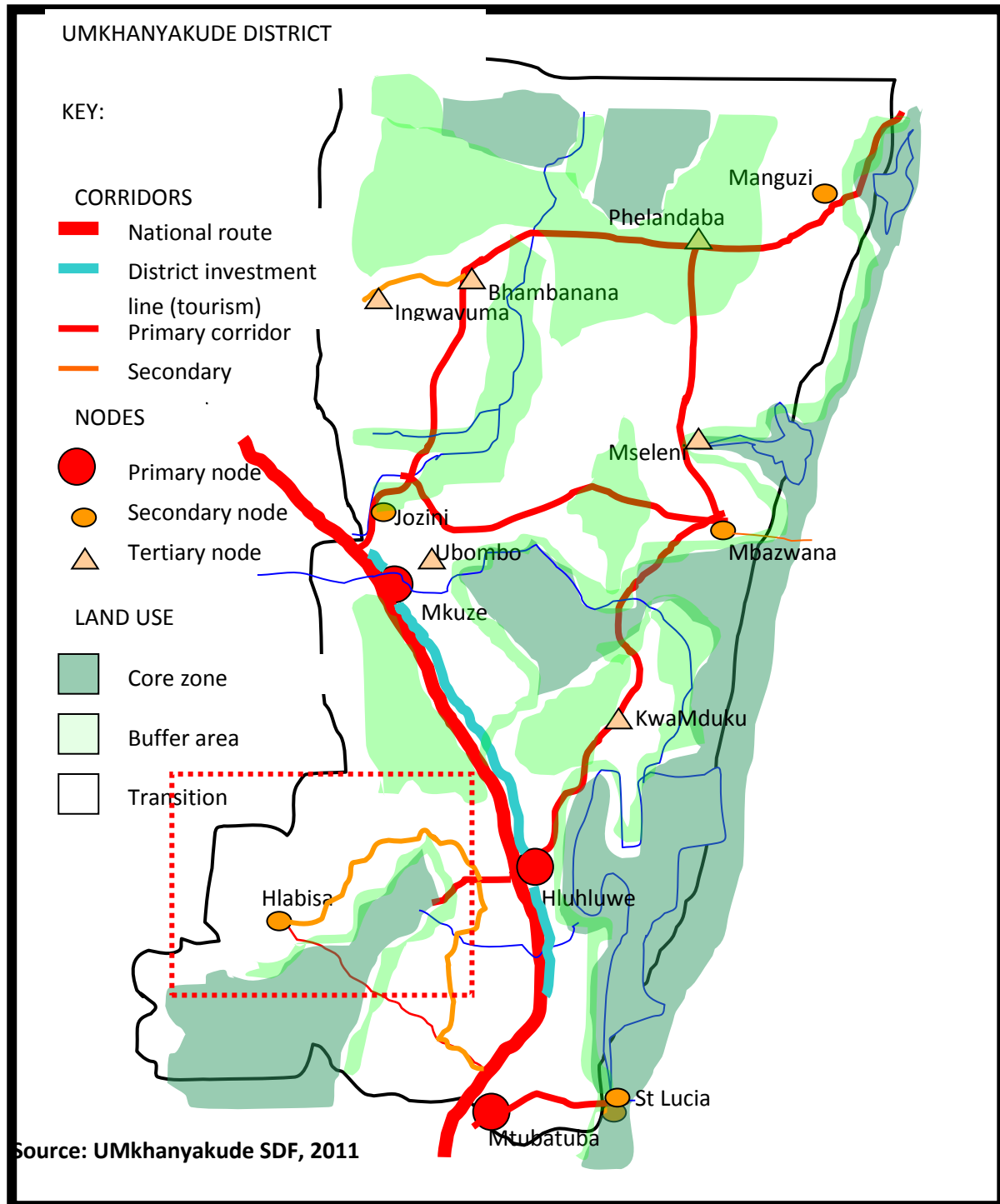
1.2.1 DEMOGRAPHIC PROFILE

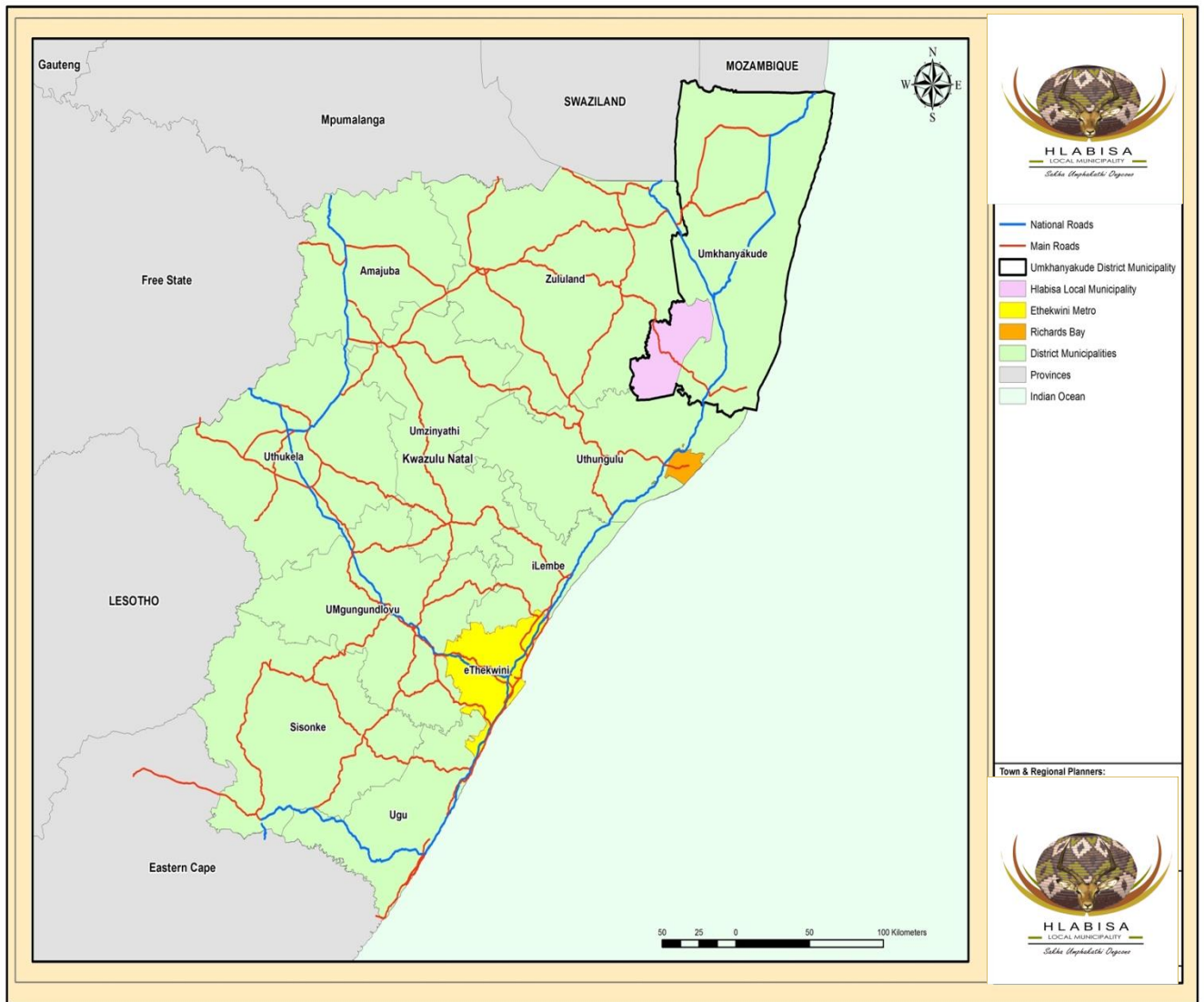
UMKHANYAKUDE DISTRICT // HLABISA LOCAL MUNICIPALITY

MUNICIPALITY	PERSONS		HOUSEHOLDS		PERSONS	HOUSEHOLDS
	CS 2001	CS 2007	CS 2001	CS 2007	CS 2011	CS 2011
Umkhanyakude	573 341	614 046	101 563	114 973	625 846	131 881
Umhlabuyalingana	140 958	163 694	25 959	27 006	156 736	34 462
Jozini	184 052	207 250	33 534	38 530	186502	39191
The Big Five False Bay	31 291	34 991	6 183	6 657	35 258	8976
Hlabisa	176 890	150 557	26 876	27 260	71925	13 184
Mtubatuba	33 612	46 596	7 472	11 339	175 425	36 068

Source: Statistics South Africa - Census 2011

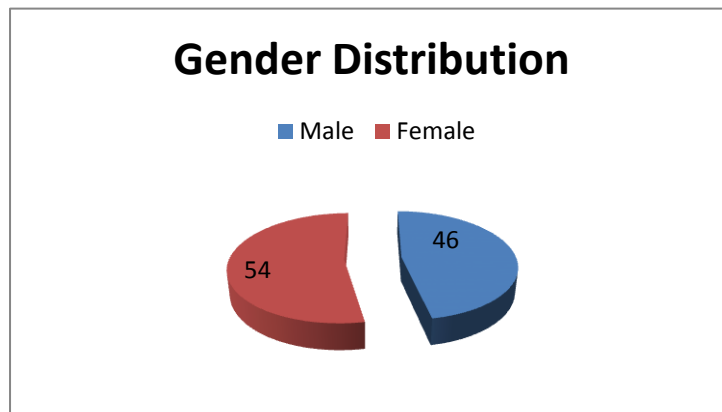
MKHANYAKUDE DISTRICT SDF





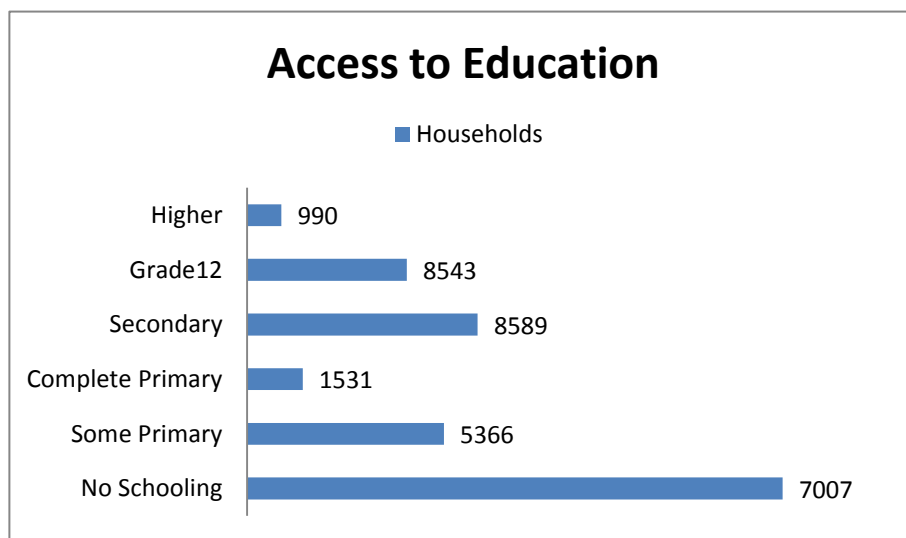
Hlabisa Locality Map

Gender Distribution



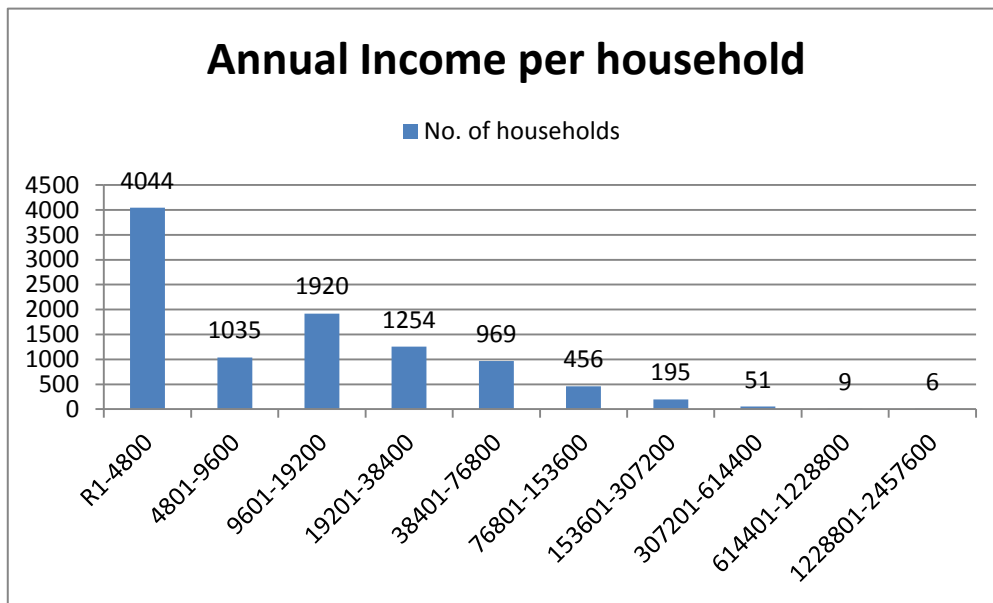
Source: Census - 2011

Level of Education



Source: Census - 2011

Household Income

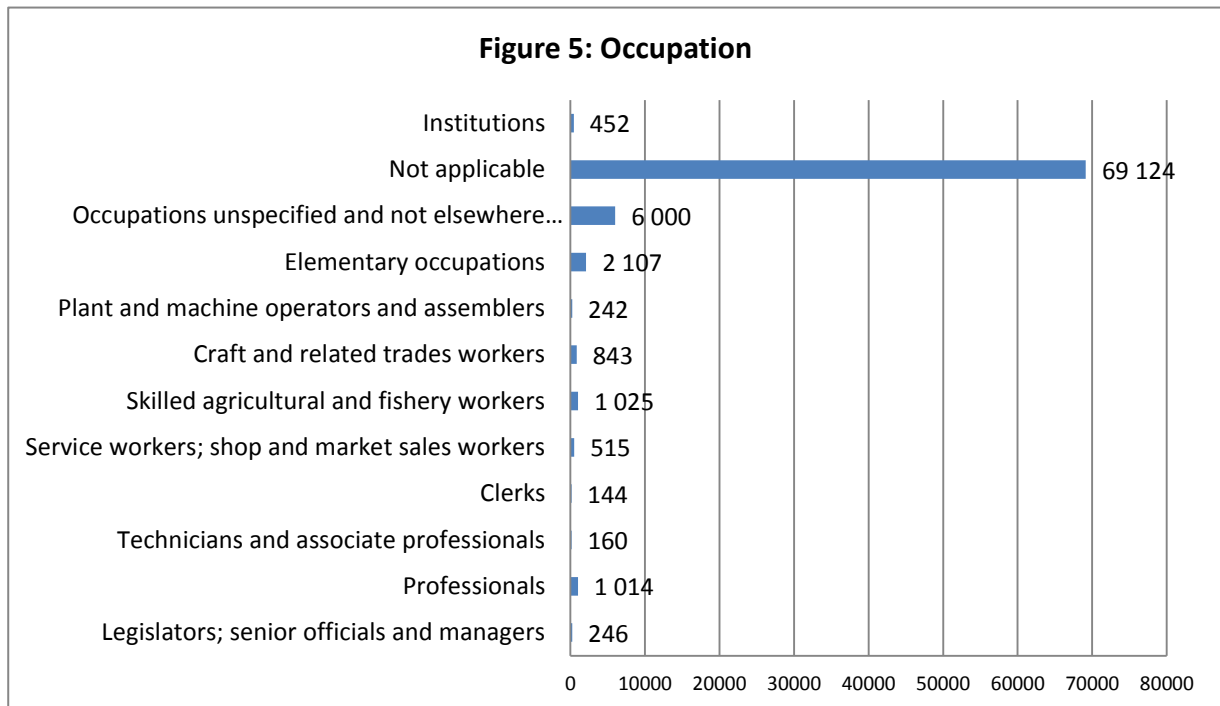


Source: Census - 2011

Compared to other municipalities in the district

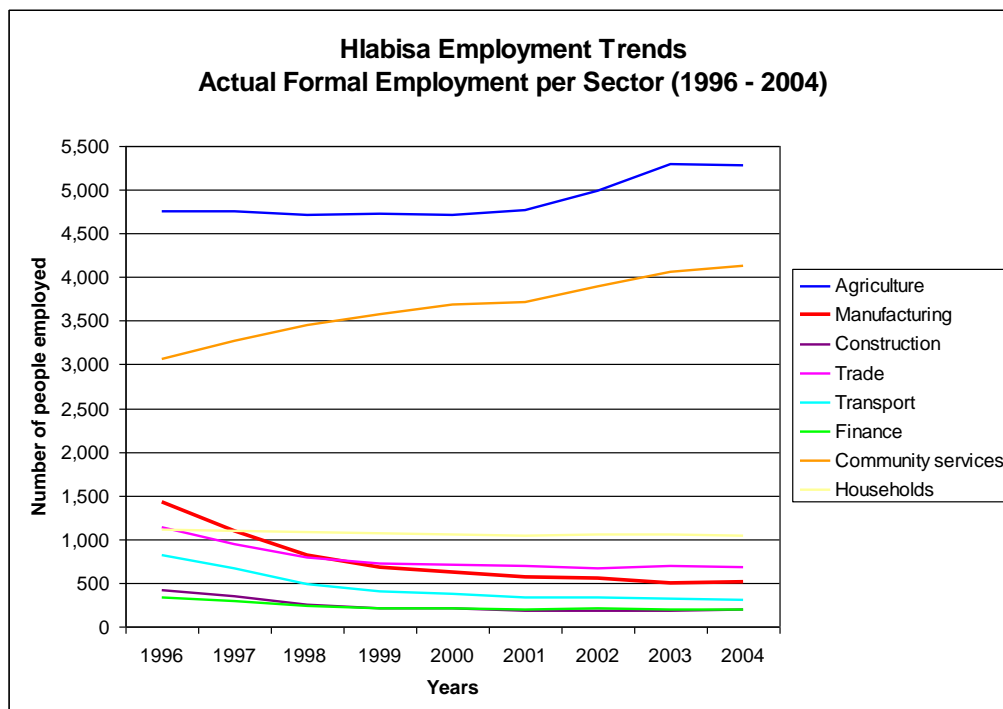
Municipality	Average household Income	
	2001	2011
DC27: Umkhanyakude	19 173	47 201
KZN271: Umhlabuyalingana	16 122	36 164
KZN272: Jozini	16 418	47 018
KZN273: The Big 5 False Bay	20 709	57 218
KZN274: Hlabisa	15 566	47 263
KZN275: Mtubatuba	27 284	55 920

OCCUPATION

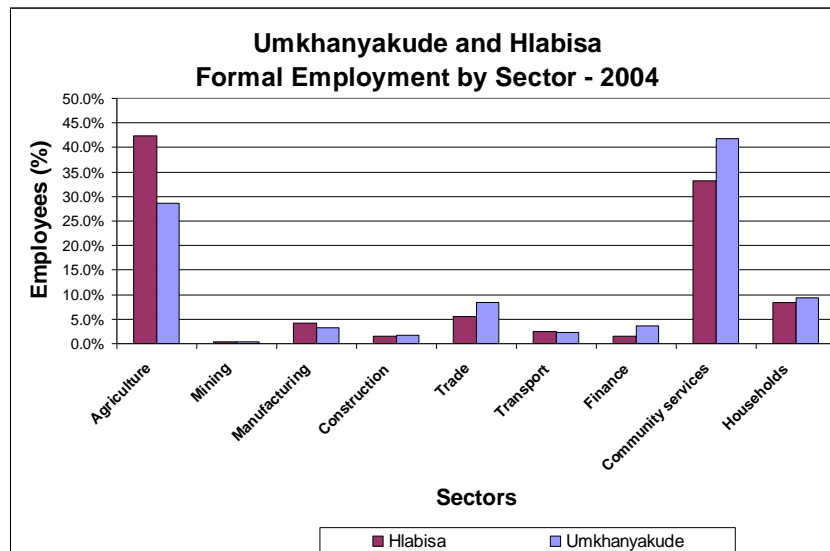


Source: MDB - 2007

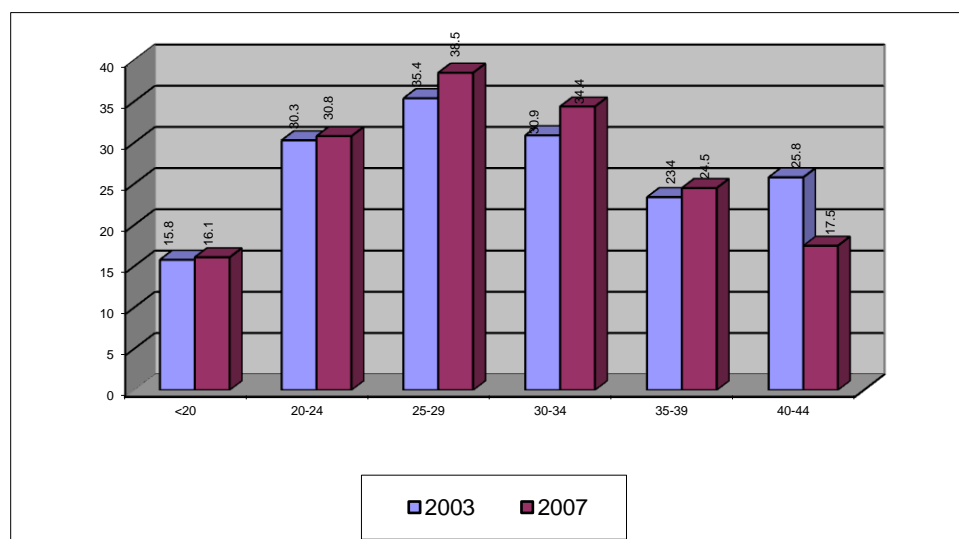
HLABISA EMPLOYMENT TRENDS – ACTUAL FORMAL EMPLOYMENT PER SECTOR (1996 – 2004)



UMKHANYAKUDE AND HLABISA – FORMAL EMPLOYMENT BY SECTOR (2007)



HIV Prevalence by Age

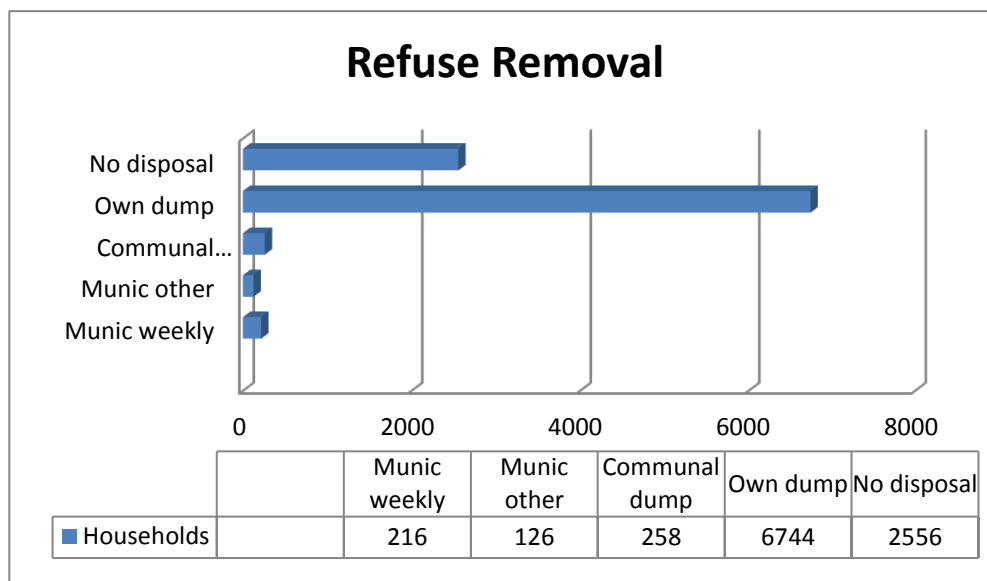
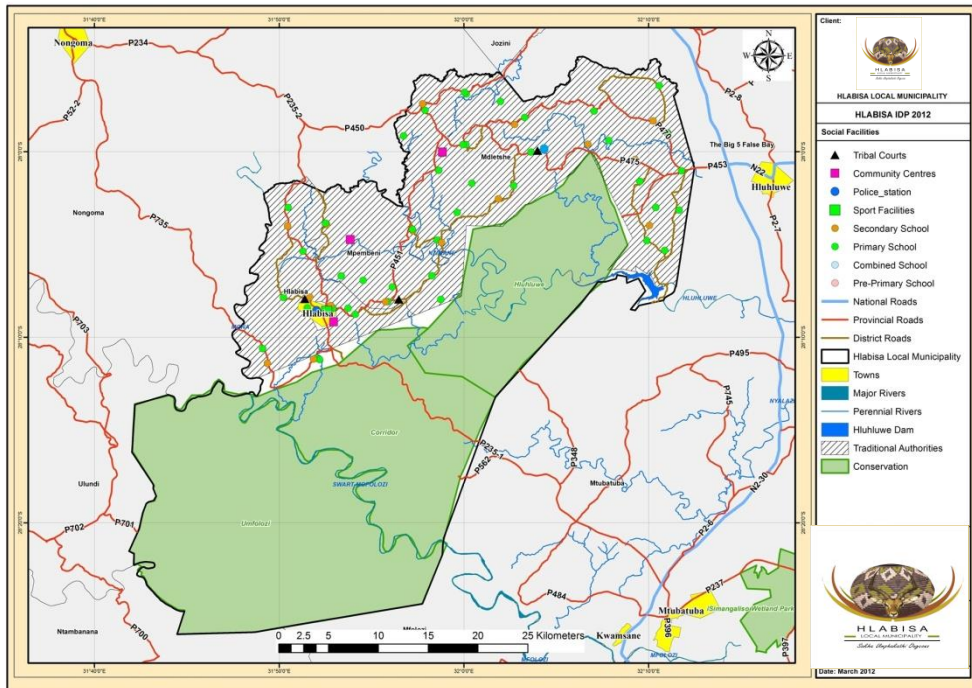


Source:
HIV &
Antenatal

Prevalence Survey - 2007

National
Syphilis
Sero-

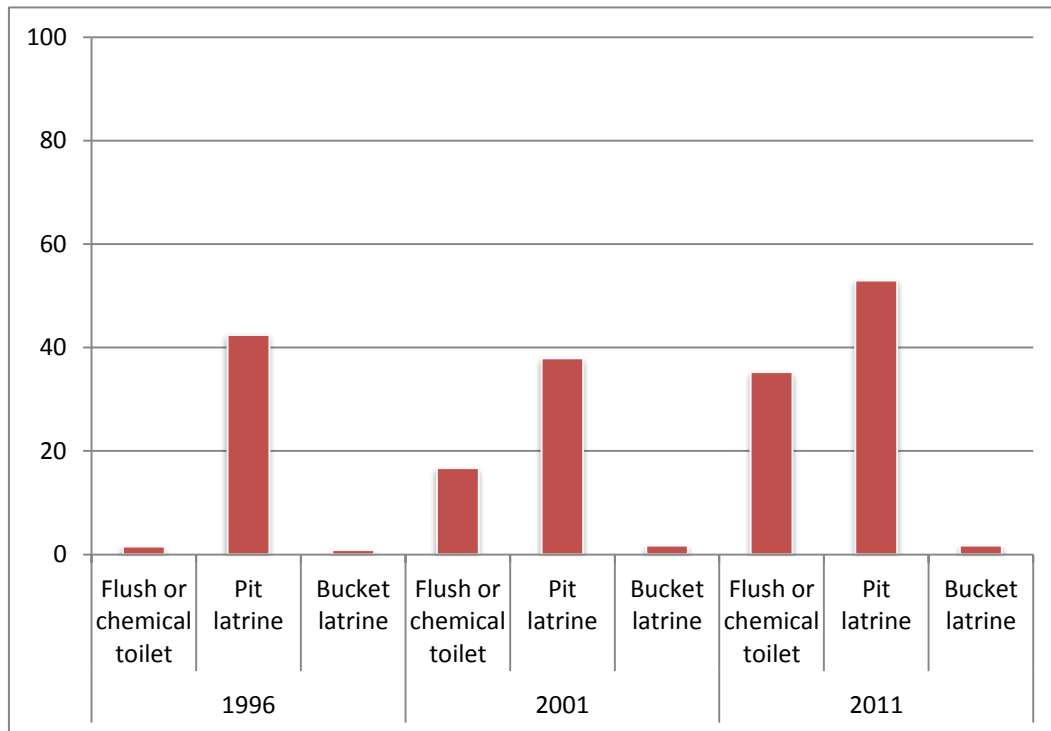
Social Facilities



**REFUSE
REMOVAL**

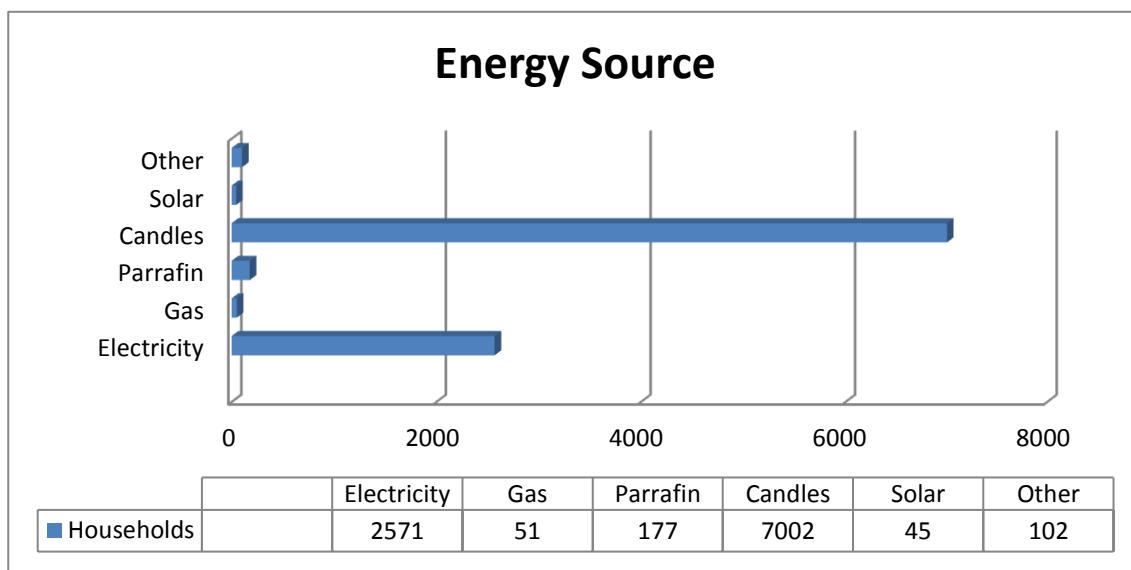
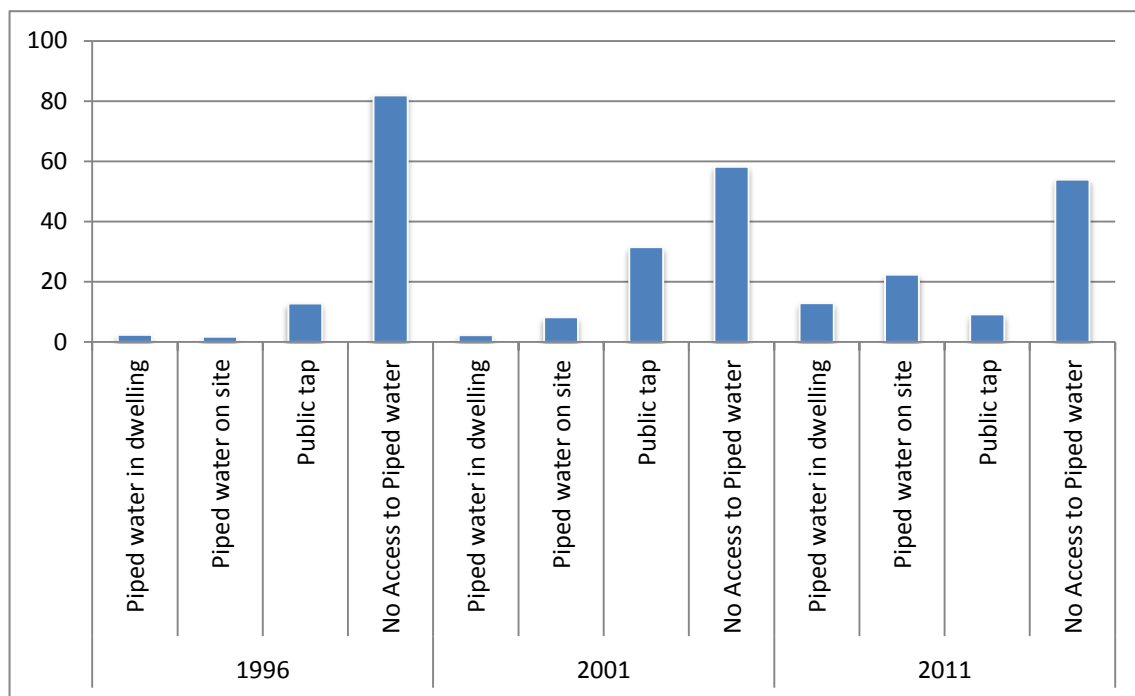
**Source: Census
2011**

**ACCESS TO
SANITATION**

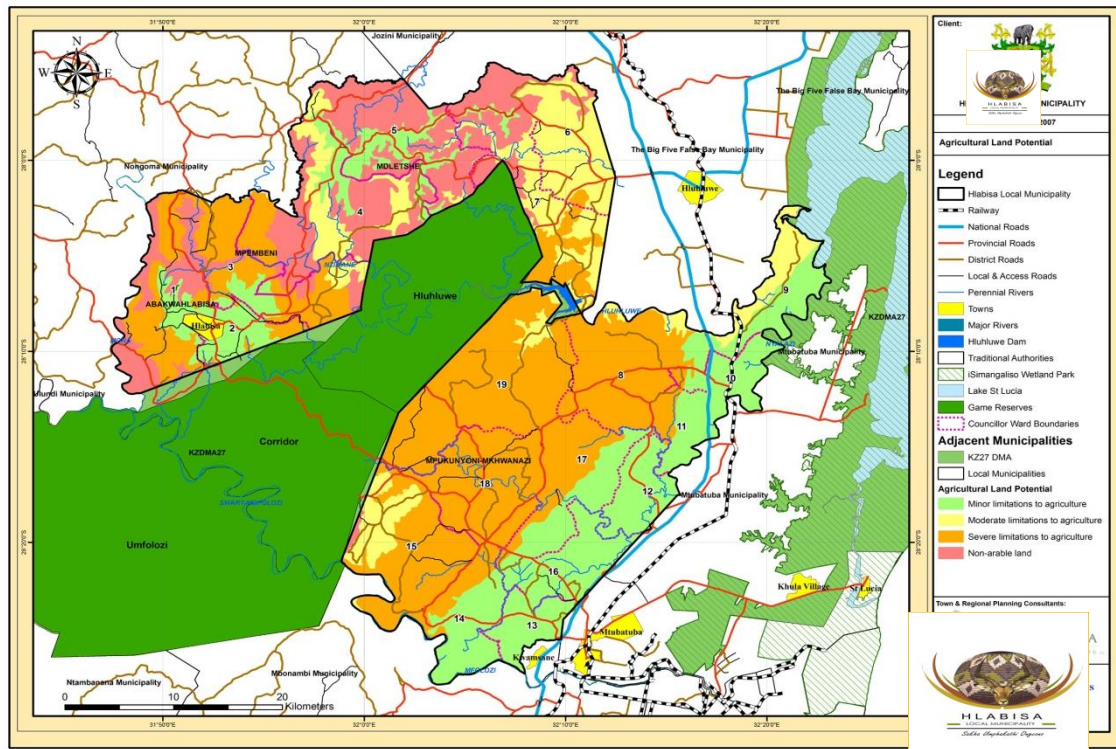


Source: Statistics South Africa 2011

ACCESS TO WATER



Agricultural Development Potential



Estimated Housing Backlog as at 2011

Traditional Council	2008 Estimated Households	Backlog at 2011
Hlabisa TC	2483	1000
Mpembeni TC	2045	1000
Mdletshe TC	5890	2500
Total Backlog		4 500

Staff Representation Occupation

Occupational Level	Male				Female				Total
	African	Coloured	White	Indian	African	Coloured	White	Indian	
Senior Management	1				2				3
Middle Management	5				1				7
Professionals	5				3				9
Other Staff	20				18				38
TOTAL	34		2		23				88

1.3. SERVICE DELIVERY OVERVIEW

Although substantially progress has been made to deliver services such as electricity, water and telecommunication infrastructure the level/extent of need is such that provision of these services remains one of the key development challenges facing Hlabisa Local Municipality. A large number of settlements is still without reliable sources of energy and depend on candles, paraffin and firewood for light and power. Water is delivered below RDP standards with certain areas showing a high rate of dependence on (boreholes) and natural sources. In some instances, plans have been developed for the delivery of bulk water, but it is important to note that some of the existing bulk water schemes within the district are operating at a loss and put strains on the financial situation of the municipality.

1.4. FINANCIAL HEALTH OVERVIEW

There was an increase of 25% on collection of property rates and services charges (Refuse Collection) in the year under review. Grant expenditure decreased from 74% in 2011/2012 to 69% in 2012/2013. The municipality also had challenges on cash flow management which had implications on spending patterns on expenditure.

FINANCIAL OVERVIEW 2012/2013			
DETAILS	ORIGINAL BUDGET	ADJUSTMENT BUDGET	ACTUALS
Grants	R53 856 000	R52 956 000	R48 634 362
Taxes & Tariffs	R 1 016 189	R 1 016 189	R 652 649
Other	R 4 980 529	R 4 383 816	R 1 822 153
Subtotal	R59 852 711	R58 356 005	R51 109 164
Less expenditure	R35 486 143	R48 856 792	R55 099 399
Net total	R24 366 568	R 9 499 213	(R3 990 235)

OPERATING RATIO	
DETAILS	%
Employee costs	33.79%
Repairs and Maintenance	1.4%
Finance charges & impairments	9.58%

CAPITAL EXPENDITURE	
DETAILS	2012/2013
Original budget	R11 915 000
Adjustment budget	R13 183 862
Actual	R 8 151 320

FINANCIAL RATIOS BASED ON KEY PERFORMANCES INDICATORS

FINANCIAL RATIOS BASED ON KEY PERFORMANCES INDICATORS		
Detail	2011/2012	2012/2013
Current ratio	0.75:1	0.47:1
Average debtors collection period	510 days	606 days
Average creditors payment period	30 days	62 days

Current ratio reflects that the state of financial affairs of the municipality is not favourable because it shows that liabilities of the municipality are more than the assets. Average debtors collection period reflect that the it takes up to 606 days for debtors to pay their accounts and it has an effect on the liquidity of the municipality . average creditors payment period reflect that it takes 62 days for the municipality to pay for its creditors and it has an effect on the liquidity of the municipality since debtors take too long to pay for services rendered to them.

CASH FLOW

Cash Flow Statement Figures in Rand Note(s)

2013

2012

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts

Sale of goods and services	2,083,348	2,109,783
Grants	50,033,999	65,563,733
Interest received	576,988	851,520
Other receipts	7,465,482	5,485,177
Non cash item		<u>- 14,711,749</u>
	<u>60,159,817</u>	<u>8,721,962</u>

Payments

Employee costs	(20,268,814)	17,316,659
Community grant expenditure	(23,357,590)	(56,298,611)
Interest paid	(274,900)	(323,531)
Other payments	<u>(5,607,540)</u>	<u>(3,194,744)</u>
	<u>(49,508,844)</u>	<u>(77,133,545)</u>

Net cash flows from operating activities

10,650,973 11,588,417

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property, plant and equipment	(10,729,281)	(14,558,164)
Purchase of other intangible assets `		<u>- (24,911)</u>

Net cash flows from investing activities

(10,729,281) (14,583,075)

CASH FLOWS FROM FINANCING ACTIVITIES

Repayment of finance lease liability	(688,540)	
Finance lease receipts		<u>1,258,282</u>

Net cash flows from financing activities

(688,540) 1,258,282

Net increase/(decrease) in cash and cash equivalents

(766,848) (1,736,376)

Cash and cash equivalents at the beginning of the year	<u>6,974,162</u>	<u>8,710,538</u>
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Cash and cash equivalents at the end of the year	<u>6,207,314</u>	<u>6,974,162</u>
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INVESTMENTS

INSTITUTION	INVESTMENT TYPE	PERIOD	AMOUNT
MERCANTILE	FIXED	30 Days	12 887
FNB - Mtubatuba branch	FIXED	32 Days	6 699 518
FNB - Richards Bay Branch	FIXED	32 Days	10 388
FNB - Conditional Grants Investments	CALL		25 822
FNB - Money Market Investment	CALL		12 753
NEDBANK -01	FIXED	90 Days	70 634

TOTAL**6 832 002****PUBLIC PRIVATE PARTNERSHIPS**

The municipality did not enter into any PPPs during the financial year under review.

SUPPLY CHAIN MANAGEMENT

The reviewed supply chain management policy of the municipality, in line with the MFMA and National Treasury prescripts, was adopted by council in May 2012. All bid committees as required by the SCM regulations are in place and the bid adjudication is chaired by the chief financial officer and operates within delegated powers. The issues raised by the Auditor-General concerning the quality of Supply Chain Management are dealt with in Chapter 6. All SCM officials have been trained in order to comply with minimum competency requirements but they have not received their certificates

GRAP COMPLIANCE

GRAP is the acronym for **G**enerally **R**ecognized **A**ccounting **P**ractice and it provides the rules by which municipalities are required to maintain their financial accounts. Successful GRAP compliance will ensure that municipal accounts are comparable and more informative for the municipality. It will also ensure that the municipality is more accountable to its citizens and other stakeholders. Information on GRAP compliance is needed to enable National Treasury to assess the pace of progress and consider the implications.

The municipality prepared its 2012/2013 Annual Financial Statements in accordance with the South African Standard of Generally Recognised Accounting Practice. Asset Register was also prepared in accordance with the South African Standard of Generally Recognised Accounting Practice. Although Auditor General qualified the municipality on PPE but the asset register was prepared according to GRAP standards.

1.5. ORGANIZATIONAL DEVELOPMENT OVERVIEW

The Municipal Structure for 2012/2013 was approved by Council. It is worth mentioning that Hlabisa Local Municipality has seen a growth on employees during the 2012/2013 financial year across all departments within the Municipality. Although there were vacancies at the end of the financial; but the total number of employees and skills increased. This was due to the limited resources.

1.6. AUDITOR GENERAL REPORT

For the previous years the Hlabisa Local Municipality received these reports

FINANCIAL YEAR	REPORT RECEIVED
2008/9	unqualified
2009/10	Unqualified
2010/11	Qualified
2011/12	Qualified
2012/13	Qualified

1.7. STATUTORY ANNUAL REPORT PROCESS

NO	ACTIVITY	TIMEFRAME
1	IDP / Budget and PMS Process Plan.	JULY
2	Implementation and monitoring of approved Budget and IDP commenced.	
3	Finalised the 4th quarter Report for 2011/12	
4	Annual Report to Internal Audit and Auditor-General	
5	Draft Annual Reports to MM	
6	Audit/Performance committee considered draft Annual Report	AUGUST
7	Mayor tabled the Unaudited Annual Report	
8	Municipality submitted draft Annual Report including consolidated annual financial statements and performance report to Auditor General	
9	Annual Performance Report as submitted to Auditor General	
10	Auditor General audited Annual Report including consolidated Annual Financial Statements and Performance data	
11	Municipality received and start to address the Auditor General's comments in November	SEPTEMBER – OCTOBER
12	Mayor tabled Annual Report and audited Financial Statements to Council complete with the Auditor- General's Report	NOVEMBER
13	Audited Annual Report was made public and representations were invited	
14	Oversight Committee assessed Annual Report	
15	Council adopted Oversight report	
16	Oversight report was made public in December	DECEMBER
17	Oversight report was submitted to relevant provincial councils	
18	Commencement of draft Budget/ IDP finalisation for next financial year. Annual Report and Oversight Reports to be used as input January	

INTEGRATED DEVELOPMENT PLANNING; PERFORMANCE MANAGEMENT AND BUDGET PROCESS PLAN FOR 2012/13

ACTIVITY	SCHEDULE DATE	RESPONS
Draft Process Plan to EXCO for approval	Aug 2011	IDP Man
IDP Steering Committee	Aug 2011	IDP Man
Advertising of Process Plan	Aug 2011	IDP Man
First IDP Representative Forum	Sept 2011	IDP Man
First Service Provider Forum	Sept 2011	IDP Man
Prepare draft budget three year operational and capital budget	Oct 2011	CFO
Budget Workshop – Discussion of budget inputs, link capital and operational plans to IDP and determine proposed tariffs	Nov 2011	EXCO MANCO
IDP Steering Committee	Jan 2012	IDP Man
IDP Steering Committee	Feb 2012	IDP Man
IDP Steering Committee	Feb 2012	IDP Man
Public Consultation Process – Public Consultation on Draft budget throughout municipality Public Consultation on Draft IDP	April 2012	MAYOR EXCO MM, IDP Man
Respond to Public Comments Response to public comments and sector comments. Incorporate recommendations into Draft budget and IDP if possible and feasible	April 2012	MAYOR CFO
Approval of Final Draft Budget Approve the Draft multi-term operational and capital budget. Approve the Draft IDP	May 2012	COUNCIL
Advertising – Publication of approved budget. Place on web site. Publication of approved IDP. Place on web site	June 2012	MM CFO
Submission of Budget – Submit approved budget to National and Provincial Treasury and DPLGTA. Submit approved IDP to National and Provincial Treasury and DPLGTA	June 2012	CFO IDP Man
Finalise SDBIP – Finalise service delivery and budget implementation plan(SDBIP) and submit to Council for approval	June 2012	MAYOR MM

CHAPTER 2 – GOVERNANCE

COMPONENT A: POLITICAL AND ADMINISTRATIVE GOVERNANCE

The Constitution Act 108 of 1996; section 151 (3) in particular states that the Council of a municipality has the right to govern on its own initiative, the local government affairs of the local community.

INTRODUCTION TO POLITICAL AND ADMINISTRATIVE GOVERNANCE

2.1. POLITICAL GOVERNANCE

Hlabisa Local Municipality made extra efforts to include the Ward Committees and Councillors to the maximum of administrative functions and outputs at all levels. Any inputs or comments from the committees are reflected or accommodated in the reports pertaining to Council matters. Ward Committees are also involved in commenting on reports with the purpose of being kept abreast of and in turn to inform the community with regard to changes and developments within the municipality. This ensures a high level of public participation and promotes the principle of accountability.

Reports are forwarded from the meeting of the Municipal Manager and Heads of Department to the relevant Ward Committees, if applicable, which can then comment as indicated above. Thereafter the reports are submitted to the Section 80 Portfolio Committee Meeting where a full-time Councillor chairs the meeting in collaboration with other part time Councillors of the Municipality. After a report has been noted and commented on by the Section 80 Committee, it is then forwarded to the Executive Committee for resolution or comments according to delegated powers.

After a final resolution has been approved by either the Executive Committee or Council, it is captured in a resolution register which is regularly updated. The notification for implementation of the resolution is sent to the relevant role-player responsible for the execution and it is followed up. Feedback of the final resolution to the Ward Committee, is the final phase of this process of community participation.

DIVISION OF LEGISLATIVE AND EXECUTIVE FUNCTIONS

In terms of Chapter 7 of the Constitution of the Republic of South Africa, the legislative and executive functions of a municipality are vested within its Municipal Council. Following the introduction of an Executive Committee; Hlabisa initiated the process of splitting the executive and legislative functions by delegating certain executive powers to its Executive Committee. With the introduction of the Municipal Public Accounts and Oversight Committee (MPAC) and its implied oversight role there has been a further implied split between the two functions. The MPAC as a structure of the legislative function (the Council) is expected to assist with oversight over the executive function (the Mayor). The principle of good governance requires that the legislative and oversight function that is to be exercised by a municipal council should be independent of the executive function that has been delegated to the Executive Committee chaired by the Mayor. This is to avoid undue influence and pressure being exerted by one function upon another and to allow each function the opportunity to operate freely within its delegations.

The legislative function of Council

The legislative (and oversight) function of the Council is vested within the full Council with the Speaker as its chairperson. The passing of by-laws, policies on functions retained by Council and frameworks within which delegated powers must be exercised, remain the function of the full Council except where certain express delegations have been made in this regard. The Speaker is also responsible for the Whippers, training of Councillors, Councillor capacitation, specific mentorship programmes (e.g. women's mentorship programme) Ward Committees etc.

The Section 79: Ethics and Disciplinary Committee

In assisting the Speaker with the performance of the delegated function relating to investigating misconduct of Councillors, enforcing the Code of Conduct for Councillors and enforcing the Standing Orders of Council, a Section 79 Disciplinary and Ethics Committee is established as and when it is required.

The Section 79: Municipal Public Accounts and Oversight Committee (MPAC)

In assisting the Council with its oversight function a Section 79 Municipal Public Accounts and Oversight Committee (MPAC) was established with specific terms of reference.

Powers of and Delegations to the Mayor:

Besides the powers and functions accorded to and imposed on the Mayor in terms of legislation (e.g. the Municipal Systems Act, Municipal Finance Management Act, etc.), the executive function of the Council is delegated to the Executive Committee chaired by the Mayor as the appointed head of the executive function insofar as the Constitution and practicalities allow. The Mayor is to exercise political oversight of the administration, except for the administrative unit known as "The Office of the Speaker". In executing and performing the executive functions of Council and the Municipality, the Mayor is assisted by members of the Executive Committee each with a particular portfolio.

WHIPPERY

The Council has a Whippers which comprises the Chief Whip of Council and the Whip of the official opposition represented in Council. The Whippers mainly deals with inter-party relations, party discipline and issues of mutual interest.

POLITICAL STRUCTURE

Photos to be obtained??????????????????

MAYOR HONOURABLE CLLR V F Hlabisa

DEPUTY MAYOR : HONOURABLE CLLR H T Nkosi

SPEAKER: HONOURABLE CLLR G R Mchunu

Reserved for photos

Statutory Functions of Council Structures

GENERAL POWERS OF THE COUNCIL

- + Approves by-laws;
- + Assigns the administration of by-laws to the Municipal Manager and the respective Heads of Department;
- + Determines overall strategic policy applicable to the municipality as a whole which gives macro direction to its executive and which guides the formulation of all other policies;
- + Approves the Integrated Development Plan;
- + Elects members of the Executive Committee, the Mayor, Deputy Mayor and Speaker;
- + Delegates appropriate decision making powers in terms of section 59(1) (a) of the Systems Act;
- + May remove the Speaker, Mayor and/or Deputy Mayor and one or more of the members of the Executive Committee from office in terms of applicable legislative prescripts;
- + Establishes committees in terms of section 79 and section 80 of the Structures Act;
- + Grants leave to Councillors from meetings of the council;
- + Approves Rules of Order of Council;
- + Determines political structures of council;
- + Bestows civic honours, and the naming of public places and municipal buildings after persons;
- + Establishes a performance management system and annually appoints a Performance Management Audit Committee;
- + Establishes a multi-jurisdictional municipal service district;
- + Approves the movement of funds between main segments into which the budget of the municipality is divided for the different departments, by means of the adjustments budget, in terms of the requirements of the MFMA;
- + Receives, deliberates and decides on audit reports;
- + Appoints a municipal manager;
- + Appoints an acting municipal manager or acting Head of Department;
- + Appoints, after consultation with the municipal manager, managers or acting managers directly accountable to the municipal manager and determines their conditions of service;
- + Determines a policy framework for the staff establishment;
- + Disposes of immovable property in terms of section 14 and 111 of the MFMA;
- + Determines councillor remuneration within the applicable legislative framework;
- + Designates full-time councillor positions and authorises applications to the MEC for Local Government for determination of full time positions;
- + Appoints or nominates councillors and/or officials to attend international meetings/ conferences/ seminars, etc;
- + Appoints councillors to portfolio committees;

HLABISA LOCAL MUNICIPALITY COUNCIL COMPOSITION

No.	Surname & Initials	Portfolio Committee	Ward / PR	GENDER	POLITICAL PARTY
1.	Hlabisa V. F.	Mayor / Executive Committee	PR	M	IFP
2.	Mchunu G. R.	Speaker of Council	WC	M	IFP
3.	Kunene T. T.	Corporate & Community Services	PR	M	ANC
4.	Langa B. J.	Infrastructure Planning & Development	WC	M	IFP
5.	Manqele B. W.	Corporate & Community Services	WC	M	IFP
6.	Nhlenyama P P	Infrastructure Planning & Development	WC	F	IFP
7.	Mdaka S. F.	Infrastructure Planning & Development	WC	M	ANC
8.	Mokoeana B. A.	Infrastructure Planning & Development	PR	M	ANC
9.	Ndlovu Z. P.	Infrastructure Planning & Development	PR	F	ANC
10.	Nkosi H. T.	Infrastructure Planning & Development	WC	F	IFP
11.	Nkosi T. Z.	Corporate & Community Services	PR	F	NFP
12.	Ntombela B. B.	Corporate & Community Services	PR	M	NFP
13.	Simelane O. Z.	Infrastructure Planning & Development	PR	F	ANC
14.	Sithole M. B.	Corporate & Community Services	WC	M	IFP
15.	Zungu B. I.	Corporate & Community Services	PR	M	IFP
16.	Zungu V. M. V.	Corporate & Community Services	WC	M	IFP

WARD COUNCILLORS

No.	Surname & Initials	Portfolio Committee	GENDER	POLITICAL PARTY
1.	Mchunu G R	Speaker of Council	M	IFP
2.	Nhlenyama P P	To be confirmed	F	IFP
3	Sithole M B	To be confirmed	M	IFP
4.	Manqele B. W.	Corporate & Community Services	M	IFP
5.	Nkosi H. T.	Corporate & Community Services	F	IFP
6.	Zungu V. M. V.	Corporate & Community Services	M	IFP
7.	Langa B. J.	Infrastructure Planning & Development	M	IFP
8.	Mdaka S. F.	Infrastructure Planning & Development	M	IFP

PROPOTIONAL REPRESENTATION COUNCILLORS

No.	Surname & Initials	Portfolio Committee	GENDER	WARD
1	Hlabisa V. F.	Mayor / Executive Committee	M	
2	Kunene T. T.	Corporate & Community Services	M	
3	Mokoeana B. A.	Infrastructure Planning & Development	M	
4	Ndlovu Z. P.	Infrastructure Planning & Development	F	
5	Nkosi T. Z.	Corporate & Community Services	F	
6	Ntombela B. B.	Corporate & Community Services	M	
7	Simelane O. Z.	Infrastructure Planning & Development	F	
8	Zungu B. I.	Corporate & Community Services	F	

Council Standing Committees

No.	Portfolio Committee	Chairperson
1.	Executive & Finance Committee	Cllr V. F. Hlabisa
2.	Corporate & Community Services Portfolio Committee	Cllr H T Nkosi
3.	Infrastructure Planning & Development Portfolio Committee	Cllr S. F. Mdaka
4.	Municipal Public Accounts Committee (MPAC)	Cllr M. B. Sithole
5.	Rules Committee	Cllr G R Mchunu

Composition of Council Standing Committees

I – Executive & Finance Committee - Composition

Political Head : Cllr V. F. Hlabisa

Administrative Head : Mr. S N Zikhali

No.	Name	Designation
1.	Cllr V. F. Hlabisa	Chairperson
2.	Cllr H T Nkosi	ExCo Member
3.	Cllr S. F. Mdaka	ExCo Member
4.	Cllr G R Mchunu	Ex Officio

STATUTORY FUNCTIONS OF THE EXECUTIVE COMMITTEE

The Executive Committee reports to, and is accountable to Council –

- ✚ Reviews the performance of the municipality in order to improve:
 - (a) the economy, efficiency and effectiveness of the municipality;
 - (b) the efficiency of credit control and revenue and debt collection services; and
 - (c) the implementation of the municipality's by-laws;
- ✚ Monitors the management of the municipality's administration in accordance with the policy directions of the municipal council (output monitoring);
- ✚ Oversees the provision of services to communities in the municipality in a sustainable manner;
- ✚ Annually reports on the involvement of communities and community organizations in the affairs of the municipality;
- ✚ Considers recommendations on the alignment of the IDP and the budget received from the relevant councillors;
- ✚ Ensures that regard is given to public views and reports on the effect of consultation on the decisions of the council;
- ✚ Makes recommendations to council regarding:-
 - (a) the adoption of the estimates of revenue and expenditure, as well as capital budgets and the imposition of rates and other taxes, levies and duties;
 - (b) the passing of by-laws; and
 - (c) the raising of loans.
- (d) approval or amendment of the IDP
- (e) appointment and conditions of service of Municipal Manager and heads of departments
- ✚ Deals with any other matters referred to it by the council and submits a recommendation thereon for consideration by the council;
- ✚ Attends to and deals with all matters delegated to it by council in terms of the Systems Act;
- ✚ Appoints a chairperson/s from the members of the Executive Committee, for any committee established by council in terms of section 80 of the Structures Act to assist the Executive Committee;
- ✚ Delegates any powers and duties of the Executive Committee to any Section 80 committee;
- ✚ Varies or revokes any decisions taken by a section 80 committee, subject to vested rights;
- ✚ Develops strategies, programmes and services to address priority needs of the municipality through the IDP and estimates of revenue and expenditure, taking into account any applicable national and provincial plans and submits a report to, and recommendations thereon, to the council;
- ✚ Subject to applicable legislation recommends or determines the best methods including partnerships and other

Corporate & Community Services Portfolio Committee – Composition

Political Head : Cllr H T Nkosi
Administrative Head : Ms. N. Z. Ndlela

No.	Name	Designation
1.	Cllr H T Nkosi	Chairperson
2.	Cllr B. W. Manqele	Committee Member
3.	Cllr T. T. Kunene	Committee Member
4.	Cllr M. B. Sithole	Committee Member
5.	Cllr T. Z. Nkosi	Committee Member
6.	Cllr V. M. V. Zungu	Committee Member
7.	Cllr B. I. Zungu	Committee Member

Infrastructure, Planning & Development Portfolio Committee

Political Head : Cllr S. F. Mdaka
Administrative Head : Mr. S. N. Zikhali

No.	Name	Designation
1.	Cllr S. F. Mdaka	Chairperson
2.	Cllr G. R. Mchunu	Committee Member
3.	Cllr Z. P. Ndlovu	Committee Member
4.	Cllr B. J. Langa	Committee Member
5.	Cllr B. A. Mokoena	Committee Member
6.	Cllr H. T. Nkosi	Committee Member
7.	Cllr O. Z. Simelane	Committee Member

PROTOCOL DESK

No.	Name	Designation
1.	Cllr V. F. Hlabisa	Mayor
2.	Cllr B. B. Ntombela	Deputy Mayor
3.	Cllr G R Mchunu	Speaker
4.	Cllr M. B. Sithole	IFP Caucus Chairperson
5.	Cllr B. B. Ntombela	NFP Caucus Chairperson
6.	Cllr S. F. Mdaka	ANC Caucus Chairperson

Rules and Order Committee – Composition

No.	Name	Designation
1.	Cllr G R Mchunu	Chairperson
2.	Cllr V. F. Hlabisa	Councilor
3.	Cllr B. B. Ntombela	Councilor
4.	Cllr S. F. Mdaka	Councilor
5.	Cllr B. W. Manqele	Councilor

Municipal Public Accounts Committee – Composition

No.	Name	Designation
1.	Cllr M. B. Sithole	Chairperson
2.	Cllr B. I. Zungu	Member
3.	Cllr H. T. Nkosi	Member
4.	Cllr T. Z. Nkosi	Member
5.	Cllr T. T. Kunene	Member

6.	Cllr B. A. Mokoena	Member
7.	Cllr Z. P. Ndlovu	Member

Senior Management Team

No.	Name	Designation
1.	Mr. S N Zikhali	Acting Municipal Manager
2.	Ms. M W Khumalo	Acting Senior Manager: Corporate & Community Services
3.	Mrs F X H Khumalo	Acting Chief Financial Officer
4.	Mr. S. N Zikhali	Senior Manager: Infrastructure Planning & Development
5.	Ms. F. X. Mhlongo	Deputy Chief Financial Officer
6.	Mr. E. L. Mpanza	Deputy Senior Manager: Infrastructure Planning & Development
7.	Mr M W Khumalo	Deputy Senior Manager: Corporate & Community Services

Middle Management Team

No.	Name	Designation
1.	Mr. T V Xulu	Manager: Council Matters
2.	Ms. T. B. N. Buthelezi	Manager: DLTC
3.	Mr. Q L van der Weitheizen	Chief Traffic Officer
4.	Mrs L N Phakathi-Ndebele	Human Resources Manager
5.	Mr. M. V. M. Mbatha	Senior Town Planner

POLITICAL DECISION-TAKING

Political decisions are taken in a formal meeting where all participating political parties in Council have equal opportunity to deliberate the items as per agenda whereafter a resolution is adopted. Almost all Council resolutions were implemented except for few that are still in process. Executive Committee resolutions are fully implemented as well.

2.2. ADMINISTRATIVE GOVERNANCE

INTRODUCTION TO ADMINISTRATIVE GOVERNANCE

MFMA section 60 (b): The Municipal Manager of a municipality is the accounting officer of the municipality for the purposes of this Act and must provide guidance on compliance with this Act to political structures; political office bearers, and officials of the municipality and any entity under the sole or shared control of the municipality.

The Municipal Manager and Head Of Departments' meet formally every Monday to deliberate on service delivery issues and reports that must be submitted to the Executive Committee or Council in terms of Delegated Powers, as well as on organisational management matters. The management team also engages the Executive Committee on a weekly basis to ensure that the decision-making process is expedited to enhance service delivery. Each HOD also interacts with his/her MMC on a more regular basis for the same purpose.

COMPONENT B: INTERGOVERNMENTAL RELATIONS

2.3. INTRODUCTION TO CO-OPERATIVE GOVERNANCE AND INTERGOVERNMENTAL RELATIONS

MSA section 3 requires that municipalities exercise their executive and legislative authority within the constitutional system of co-operative governance envisaged in the Constitution section 41. UMkhanyakude District plays a pivotal role in assisting with road transport initiatives.

NATIONAL INTERGOVERNMENTAL STRUCTURES

PROVINCIAL INTERGOVERNMENTAL STRUCTURES

KZN Waste Forum (GDARD) - Quarterly

EPWP Environment & Culture Sector (GDARD & DPW) - Quarterly

SALGA KZN (Waste Sub Committee) SALGA: By invitation

Environmental Management Forum (GDARD) - by invitation

Engineering Services:

Northern Regional Sanitation Scheme: Project Steering Committee monthly for the Northern Regional Sanitation Scheme. It meets monthly normally. The Scheme covers the upgrading and expansion of Waste Water Treatment and Reticulation. (The MM normally attends the Project Technical Meetings there are also Political Meetings which the Politicians should attend)

Sphere Meeting: Municipal Infrastructure Grant (MIG) Sphere Meeting monthly. The key role players are Local and District Municipalities in KZN, Provincial Department of Local Government and Housing and the National Department of Cooperative Governance. Other National and Provincial departments also attend. The purpose

of the meeting is providing information about MIG expenditure and progress on projects. Guidance on challenges is provided.

Expanded Public Works Programme: Provincial Steering Committee Meeting for EPWP quarterly. The key role players are Local and District Municipalities and Metros in KZN, Provincial Department of Infrastructure Development and the National Department of Public Works. Other National and Provincial departments also attend. The purpose of the meeting is to provide information about EPWP expenditure and progress on projects. Guidance on challenges is provided.

Infrastructure Sector Committee Meeting for EPWP quarterly: The key role players are Local and District Municipalities and Metros in KZN, Provincial Department of Infrastructure Development and the National Department of Public Works. Other National and Provincial departments also attend. The purpose of the meeting is providing information about EPWP expenditure and progress on projects in the Infrastructure Sector. Guidance on challenges is provided.

Corporate Services

Provincial Government hosted a joint Municipal Internal Audit & Risk Management Forum with specific focus on Corporate Governance and its applicability to the local government sphere. It enabled municipalities to benchmark its compliance in terms of the requirements shared during the forum discussions. Provincial Government embarked on a mid-year budget and performance visit in March 2012 to verify the level of performance in terms of:

1. Audited financial performance vs original and revised budget;
2. Performance against IDP and SDBIP targets;
3. Auditor-General's report;
4. Special adjustment budget in terms of Section 32 of the MFMA;
5. Infrastructure delivery achievements against infrastructure plans;
6. Adjustments estimate proposal;
7. Status of budget preparation process (2012/2013); &

8. Status of institutional arrangements relating to and including supply chain management and audit

RELATIONSHIPS WITH MUNICIPAL ENTITIES

Hlabisa Local Municipality do not have any entities.

DISTRICT INTERGOVERNMENTAL STRUCTURES

Hlabisa is part of the Umkhanyakude District and participate on the following IGR forums:

Protection Services: Traffic : serve at Social Crime Broader Forum.

Meetings are held frequently to plan and execute joint social crime operations with relevant stake holders. Department of Community Safety cascade provincial priorities so as to yield maximum results. Arrive Alive campaigns and Know your neighbour campaigns are jointly conducted with great success. Joint Road Blocks during Easter and Festive seasons create excellent police visibility thus discourage noncompliance of the Law.

Social Services Department: Environment and Waste Management Forum (UDM) - by invitation.

Finance: Finance IGR Forum is to promote and establish a good and sound relationship between the District and the Municipalities as well as Provincial Treasury. Meetings is held monthly and is chair by the CFO of Umkhanyakude District Council or if not possible by one of the CFO's (or delegates) of the Local Municipalities. Of the outcomes is a common financial system (Venus) and procurement system.

COMPONENT C: PUBLIC ACCOUNTABILITY AND PARTICIPATION

OVERVIEW OF PUBLIC ACCOUNTABILITY AND PARTICIPATION

MSA section 17 (2): requires a municipality to establish and organise its administration to facilitate a culture of accountability amongst its staff. Section 16 (1): states that a municipality must develop a system of municipal governance that compliments formal representative governance with a system of participatory governance. Section 18 (a) - (d): requires a municipality to supply its community with information concerning municipal governance, management and development.

2.4. PUBLIC MEETINGS

WARD COMMITTEES

PUBLIC MEETINGS						
NATURE & PURPOSE OF MEETING	DATE OF EVENTS	NUMBER OF PARTICIPATING MUNICIPAL COUNCILLORS	NUMBER OF PARTICIPATING MUNICIPAL ADMINISTRATORS	NUMBER OF COMMUNITY MEMBERS ATTENDING	ISSUE ADDRESSED (YES/NO)	DATES & MANNER OF FEEDBACK GIVEN TO COMMUNITY

2.5. IDP PARTICIPATION AND ALIGNMENT

IDP PARTICIPATION & ALIGNMENT CRITERIA	YES/NO
Does the municipality have impact, outcome, input indicators?	Yes
Does the IDP have priorities, objections, KPIs, development strategies?	Yes
Does the IDP have multi-year targets?	Yes
Are the above aligned and can they calculate into a score?	Yes
Does the budget align directly to the KPIs in the strategic plan?	Yes
Do the IDP KPIs align to the Section 57 Managers?	Yes
Do the IDP KPIs lead to functional area KPIs as per the SDBIP?	Yes
Do the IDP KPIs align with the provincial KPIs on the 12 Outcomes?	Yes
Were the indicators communicated to the public?	Yes
Were the four quarter aligned reports submitted within stipulated time frames?	Yes

COMPONENT D: CORPORATE GOVERNANCE

2.6. RISK MANAGEMENT

MFMA section 62 (i) (c) requires a municipality to have and maintain an effective, efficient and transparent system of risk management.

Hlabisa Local Municipality adopted a Risk Committee and Risk Management Committee principle under the guardianship of Provincial Treasury. Council approved the establishment of a Risk Management Committee, approval of a Risk Management Committee Charter and approval of the Enterprise Risk Management Policy.

The five top strategic identified risks are:

1. Proper management of distribution losses;
2. Sustainable community development focused on the less privileged;
3. Legalising of existing and new landfill sites;
4. Legal compliance;
5. Proper management and maintenance of assets.

2.7. ANTI-CORRUPTION AND FRAUD

Council adopted a zero tolerance attitude towards fraud, theft and corruption, as contained in the Fraud Awareness & Prevention Policy. This resulted in the implementation of a fraud reporting hot line to be established. The signing of a commitment by all municipal employees formed part of the implementation of the policy and management accepted the responsibility to ensure that all employees are made aware of the policy and receive appropriate training and education on a regular basis. All newly appointed employees undergo induction, which include the acceptance of the zero tolerance attitude towards fraud, theft and corruption. Council has a very strong attitude towards legislative compliance, in specific supply chain management principles and also the proper functioning of the performance and audit committee, without councillor and/or political interference. All positive results are reported to the SAPS where required, for further investigation and prosecution.

2.8. SUPPLY CHAIN MANAGEMENT

MFMA section 110 - 119; SCM Regulations 2005; and relevant MFMA circulars set out required processes and guidance manuals to help ensure that SCM arrangements provide appropriate goods and services, offer best value for money and minimize the opportunities for fraud and corruption.

Hlabisa Local Municipality has amended its SCM policy to provide for the new legislation and internal processes to ensure MFMA and SCM Regulations compliancy. No Councillors are part of any SCM committees. These committee members are appointed by the Bid Adjudication Committee prior to the specifications meeting when a bid is requested. Hlabisa Local Municipality SCM Unit has 03 officials that are in the process of completing the prescribed levels required for their positions as per the Competency Regulation Guidelines.

2.9. BY-LAWS

MSA 2000 s11 (3) (m) provides municipal councils with the legislative authority to pass and implement by-laws for the betterment of the community within the terms of the legislation.

2.10. WEBSITES

Documents published on the Municipality's / Entry's Website	YES / NO
Current annual and adjustments budgets and all budget-related documents	Yes
All current budget-related policies	Yes
The previous annual report (Year-1)	Yes
The annual report (Year 0) published / to be published	Yes
All current performance agreements required in terms of section 57 (1)(b) of the Municipal Systems Act (Year 0) and resulting scorecards	No
All service delivery agreements (Year 0)	No
All long-term borrowing contracts (Year 0)	Yes
All supply chain management contracts above a prescribed value (give value) for year 0	Yes
All information statement containing a list of assets over a prescribed value that have been disposed of in terms of section 14 (2) or (4) during year 1	Yes
Contracts agreed in year 0 to which subsection (1) of section 33 apply, subject to subsection (3) of that section	Yes
Public-private partnership agreements referred to in section 120 made in year 0	Yes
All quarterly reports tabled in the Council in terms of section 52(d) during year 0	No

CHAPTER 3 - SERVICE DELIVERY PERFORMANCE (PERFORMANCE REPORT PART 1)

COMPONENT A : BASIC SERVICES

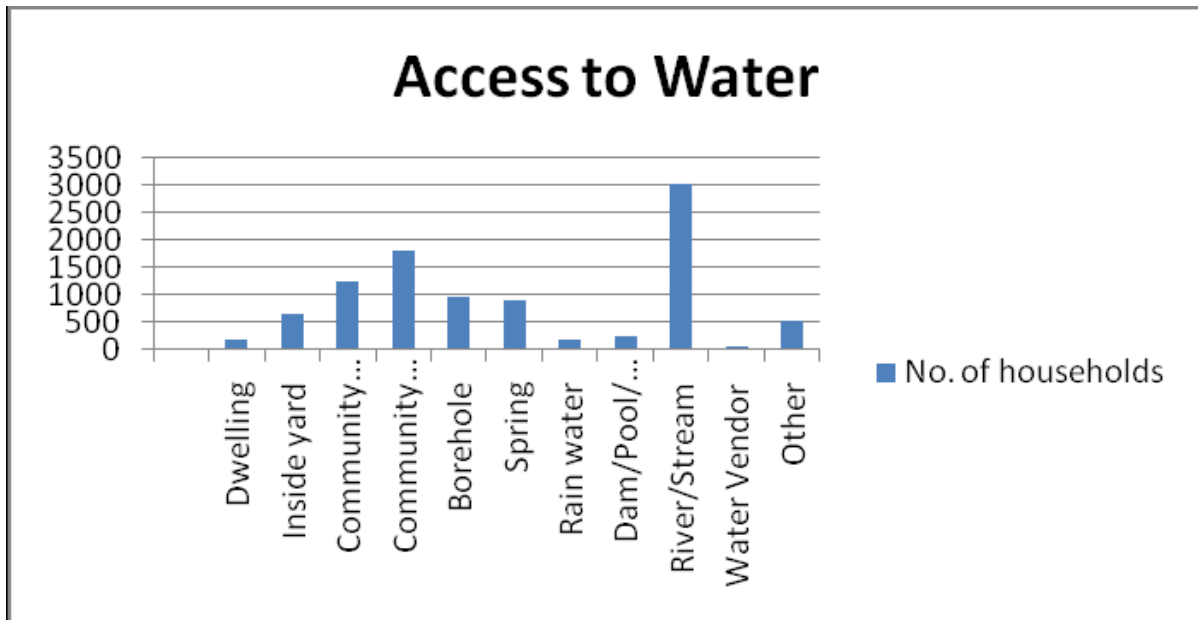
3.1. WATER PROVISION

The nature of backlog includes the lack of extensive use of boreholes and natural sources of water. None of this is purified. Only 6 037 households benefit from a regional water scheme. The responsibility for water (water authority and service provider) resides with Umkhanyakude District.

Hlabisa CBD, Hlabisa and Mpembeni Tribal Authority areas water is pumped from Matshamnyama River and pumped through a rising main and is later gravitated by pressure pipes to consumers, however, this supply is not enough hence its subsidization through boreholes. Regardless of the above backup the main issue is the very low water table, therefore an alternative to tap from Jozini Dam through the Hlabisa- Mandlakazi Bulk Water Supply has been explored, which is an R89m infrastructure investment.

Areas of Mdletshe Tribal Authority obtain water from Hluhluwe Dam whereby the water is pumped through to a rising main and other schemes utilized are Ncwabakazi, Matshamhlophe, Gabadela water schemes and Hluhluwe Dam.

However all the above mentioned water sources are not able to supply all the communities as the district supplement by delivering water to some other communities. Also the Mdletshe Area will be supplied by the Hlabisa- Mandlakazi Bulk Water Supply scheme in future.



Hlabisa South is the portion of the Hlabisa LM which has the Ezibayeni Scheme as its northern boundary, the Zululand District Municipality (ZDM) as its western boundary and the Umfolozi/Hluhluwe Game Reserve as its south eastern boundary. It includes Hlabisa Town.

Despite the fact that Hlabisa Town has a water supply system it is still felt that the town is not serviced sufficiently and is therefore included in the backlog figures. The town frequently experiences periods of no water due to a severe shortage in water supply. Figures from the pump operators are that there is a demand in the region of 1 000m³ per day but is only a supply of approximately 300m³ per day.

The bulk supply line to cover this area is coming from the **Mandlakazi/Hlabisa Bulk line which gets water from the Jozini Dam. The cost estimate for this bulk is R89 million.** Using a 60/40 split for bulk/reticulation (based on bulk water supply schemes in the area) an additional amount of R60 million was included for the reticulation from the bulk supply to cover this area inclusive of Hlabisa Town.

Although as Umkhanyakude District Municipality; we are a shortage of supply to all other sectors; we have managed to supply sectors like Agriculture, Forestry, Industrial and domestic. The other contributing factor to

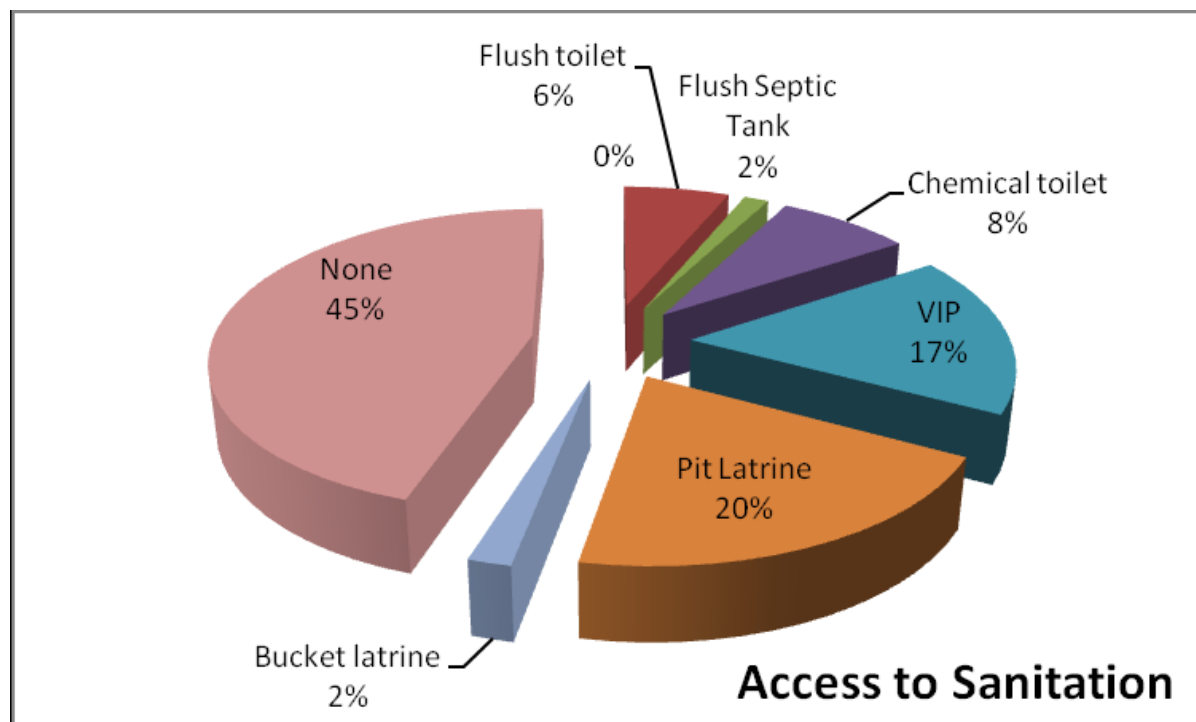
the shortage is the loss of unaccountable water losses. As a district this had been investigated and it has been established that the maintenance of the infrastructure; shortage of skills and vandalism are the main sources of the water loss. However this is receiving attention.

WATER USAGE

DESCRIPTION	2001	2007
	ACTUAL	ACTUAL
WATER (ABOVE MIN LEVEL)		
Piped water inside dwelling	1,8	7,6
Piped water inside yard	6,5	13,5
Pipe water inside yard (but not in dwelling)	31,0	36,7
Using boreholes	9,8	4,3
Springs	9,3	1,7
Dam / pool	2,7	5,5
River / steam	30,6	27,1
Water vendor	0,8	1,5
Rainwater tank	2,0	1,1
Other	5,5	1,0

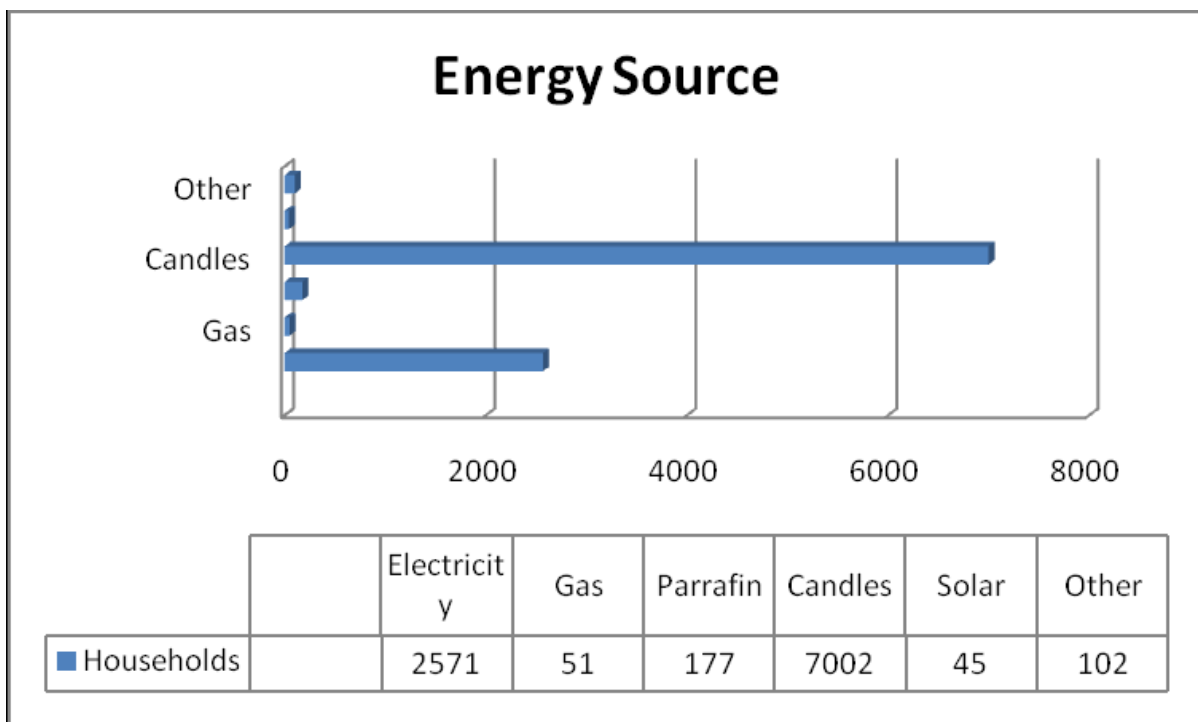
3.2. WASTE WATER (SANITATION) PROVISION

Figure below indicates that access to sanitation in Hlabisa Local Municipality has improved a great deal with the percentage number of households who are not provided with sanitation having reduced from 47.3% in 2001 to 29.8% in 2007. Similarly, the number of households with ventilated pit latrines has also been recorded to be approximately 17% in 2001. It is however, noted that the number of households using flush toilets that are connected to a sewer system has declined to 6.3%. According to UMkhanyakude Backlog Study the district has delivered toilets to about 12 660 households at an average cost of R5 500,00 per toilet.



3.3 ELECTRICITY

INTRODUCTION TO ELECTRICITY



3.4. WASTE MANAGEMENT (THIS SECTION TO INCLUDE: REFUSE COLLECTIONS, WASTE DISPOSAL, STREET CLEANING AND RECYCLING)

BACKGROUND: WASTE MANAGEMENT SERVICES

The Council intends to provide a “boundary-to-boundary” waste management service in public areas it is responsible for, in its geographic area of jurisdiction. Property owners, or organizations, business entities or individuals who occupy premises, are responsible for maintaining cleanliness and hygiene standards on their premises (on-site inside property boundaries) in keeping with the norms determined by applicable by-laws. All stakeholders may contract on-site waste management services at their own expense.

The Council's own services are clustered per the following categories and the suite of services required for managing waste through an internal service mechanism:

- General waste collection services, including the transportation of waste to a landfill or drop-off site for recyclables, a special processing/treatment installation, or a disposal facility;
- Cleaning/cleansing, consisting out of a wide range of cleaning services for all public spaces and streets under the Council's jurisdiction. This includes litter bin provision and servicing, street sweeping, litter picking, the clearing of illegal dumping and animal carcasses, and the cleaning of industrial pollution, waste and debris generated by natural disasters and processes;
- Disposal services, which include the maintenance and operation of special processing and collection facilities, waste transfer stations and landfill sites;
- Technical support services: The Council operates a fleet of vehicles that are specially equipped for the task of waste collection, cleaning and transportation of waste to landfill sites. A variety of support infrastructure, such as depots and workshops, is required and must be provided to house and support the different functions.
- General management, contract management, customer relations, information, administrative and planning support: Various services are provided to manage and provide additional support for the operational services.

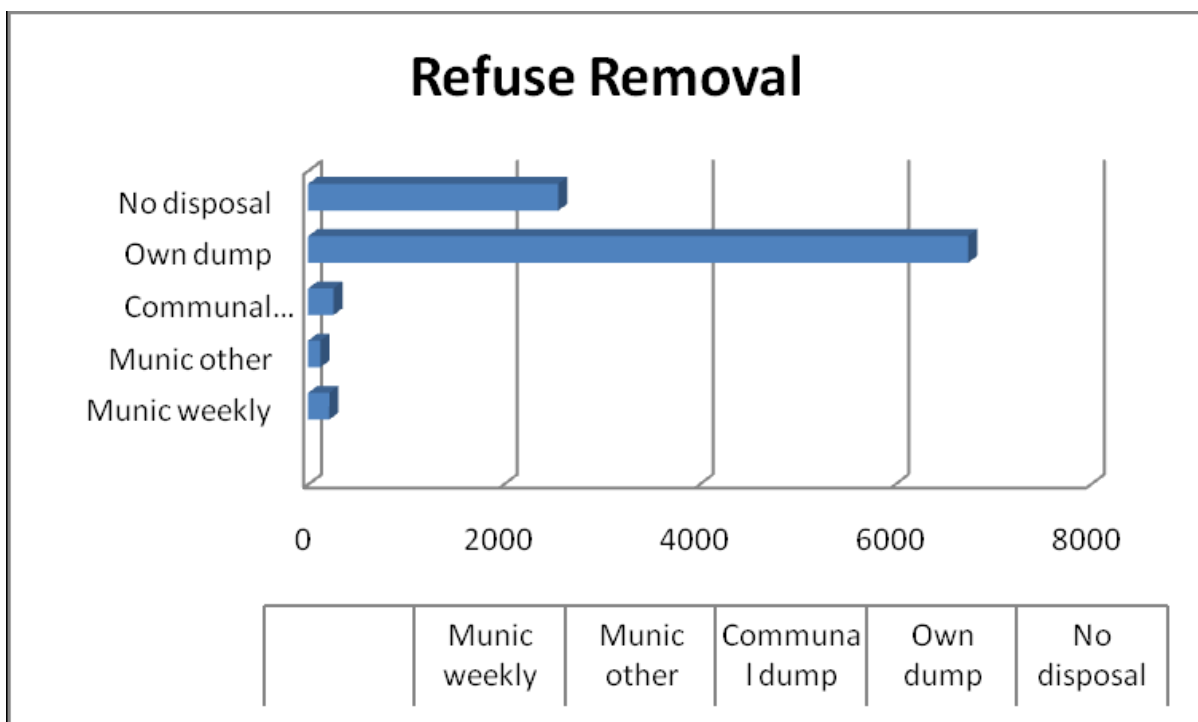
The Hlabisa Local Municipality has a responsibility to abide by statutes, policies and guidelines that are introduced by National and Provincial Departments from time-to-time. In this regard, the council acknowledges the regulatory oversight that must be exercised in terms of legislative compliance as well as the allocation of funds in aid of achieving National and Provincial objectives at the local government level. Conversely, these Departments have a responsibility to ensure that timeous communication and the intergovernmental transfer of funds enables the Council to execute its duties and obligations.

The standard service level for residential waste collection, to informal settlements is aligned with the Council's Indigent Policy. This is a once-a-week, door-door waste collection service provided to indigent families per dwelling, according to a Council approved contract. "Emergency" waste services are provided temporarily

while existing service provision plans are amended. Black plastic refuse bags for utilisation in clean-up campaigns may be provided at no cost subject to the availability of funds, at the discretion of the Director: Community Services who is also in charge of Waste and Environmental Management.

2. SERVICE DELIVERY

Hlabisa Local Municipality is not well provided with refuse removal facilities. According to the table below, 71% of the community have their own refuse dump, which is not provided by the municipality, 26% have no disposal and 2% have its disposal removed once or twice a week.



The Commercial and Industrial sector is partially serviced by Hlabisa Local Municipality whereas the rest of these sectors have their own Waste Management Plans and is serviced by the private sector. The Hlabisa Local Municipality currently provides services to the towns and areas in its jurisdictional area. The Municipal

area has been divided into eight (08) wards, numbered from 1 to 08. A survey was conducted to establish the tools required in executing the services necessary to service the un-serviced households that will be targeted for 2013/2014 financial year to deliver basic refuse services. Very few household collection points are serviced weekly, whereas there are many points that have been identified as unserviced throughout areas in Hlabisa.

3. MAJOR SUCCESSES ACHIEVED AND CHALLENGES FACED IN 2012/13

3.1. CHALLENGES

The following are some of the challenges impacting on service delivery:-

- Vacancies on senior management level.
- Interruption of service due to mechanical breakdowns on vehicles.
- Limited environmental education and awareness due to financial constraints and nonavailability of environmental management officers.
- Lack of environmental control co-ordination.
- Lack of basic infrastructure such as storage bins, transfer stations etc.
- Inadequate waste services – there are still areas that do not receive a waste removal services.
- Partial and non-compliance of landfill sites.
- Solid waste management systems.

3.2. DETAILS OF ACHIEVEMENT

- Extension of street cleansing services to areas not previously serviced;
- The approval of by-laws by Council as a measure to ensure compliance and policing.
- Extension of waste services to previously un-serviced areas increased by %.
- Increase in waste removal income.

3.5. HOUSING

Hlabisa is a generally rural area. It is dominated by expansive rural settlements which are neither planned or have benefited from formal development processes. Each household has taken responsibility for the provision of housing using affordable building material. As a result, the majority of houses are constructed of mud reflecting the affordability level of each household. However, some households have built large and relatively expansive brick houses.

The table below Shows that in 2001, 44.6% of the Hlabisa Local Municipality population occupied a traditional dwelling/ hut/ structure made of traditional materials, while in 2007, this had decreased to 37.3%. This decrease is matched with an increase of 18.5% over the same six year period, of the population occupying a house or brick structure on a separate stand or yard, from 36.4% to 54.9%. The total number of informal dwellings/shacks both in and not in a back yard has also decreased from 2.8% in 2001 to 1.4% in 2007.

The current housing backlog for Hlabisa Local Municipality is estimated for each ward as the difference between the estimated number of households for 2008 and the percentage of these households that classify as formal dwellings, as in **Table 7** below. In other words the number of housing structures considered as informal constitutes the housing backlog.

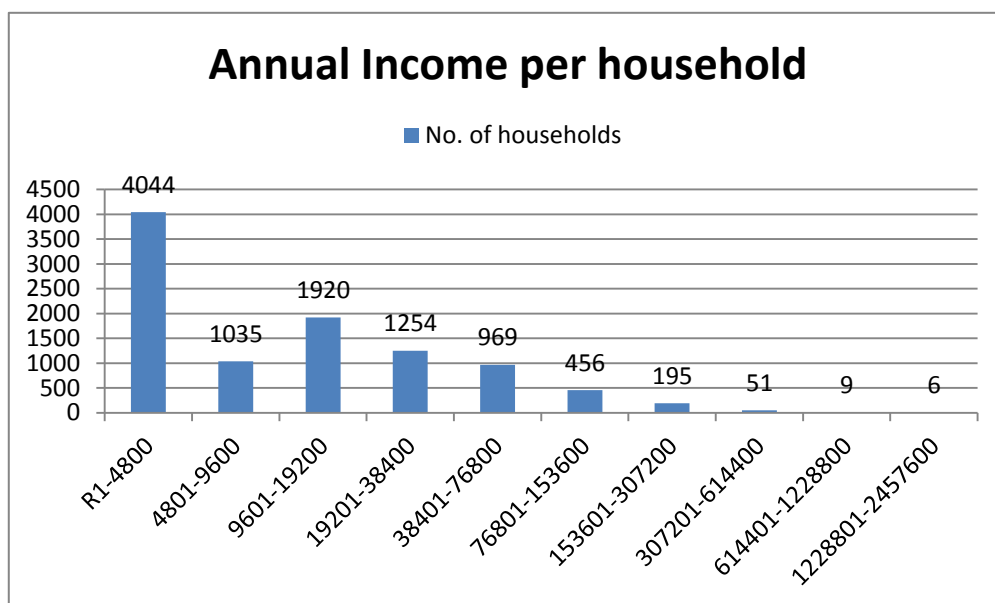


3.6. FREE BASIC SERVICES AND INDIGENT SUPPORT

Free Basic Services and Indigent Support:

A bulk of our communities are indigent, basic services are being currently rendered however, the indigent register is still to be finalized.

Furthermore, figure 1 below indicates the income profile of Hlabisa Local Municipality. It indicates that 41% percent of the households has no secured source of income, approximately 10% earns between R4 801 and R9 600 per annum, followed by 19 % earning between R9 601 and R19 200, then 13% earns less than R38 400 per annum. Strikingly, only the majority of the households (83%) earn less than R3 200 per month.



The above indicates that only a few households rely on a source of income, as 83% of the community receives an income of less than R3 200 per month. This shows that the majority of the population lives below poverty datum line (therefore can be considered indigent) and should be linked with Department of Welfare for assistance in terms of welfare grants. Further the municipality should consider poverty alleviation projects and programmes to support these communities.

COMPONENT B: ROAD TRANSPORT**Road Transport****Roads:**

Road infrastructure is of paramount importance in Hlabisa since the area does not have other modes of transport such as rail and freight. The quality of roads varies considerable reflecting the level of importance attached to each road. The road that streches from the N2 through Hlabisa to Nongoma (R618) was upgraded and tarred as part of the Renaissance Programme of the Department of Transport and a Provincial Tertiary Corridor Route in terms of the Provincial Spatial Economic Development Strategy (PSEDS). The Department of Transport also upgraded P451 to blacktop. This will mean a quicker and shorter route of driving to Hluhluwe, rather than using the N2.

Municipal roads undertaken during this reporting year with MIG funding are:

Road Name	Ward	Budget	Funder
Khalokazi Gravel Road	01	R1 333 491.00	MIG
Ezifundeni to Mthekwini Gravel Road		R1 186 039.00	MIG

Transport:

As is, Hlabisa has one functional mode of transport which is road transport and in in terms of associated facilities, according to UMkhanyakude Public Transport Plan, there is only one proper taxi rank located in Hlabisa town (Ward 2). Despite that, there are other areas which have in their own right emerged and are being utilised for public transport waiting spots. Amongst others, these include Mganwini, Nhlwathi and Mpembeni.

According to the SDF, Mpembeni and Ezibayeni as secondary nodes need such facilities as there are many other activities that are taking place and a vast majority of people use public transport to navigate to these areas. These above areas support about 90 taxis and a number of bakkies servicing approximately 04 taxi routes. The waiting periods are sometimes very long clearly indicating a need to upgrade the public transport system.

The Public Transport Plan further indicated that no formal bus services are in existence within Hlabisa. However, this is not of serious concern as the function can adequately be fulfilled through taxi services. Nonetheless, it is imperative that the taxi services be provided with adequate facilities as taxi transfer areas in the identified nodes and along the identified routes. This will in turn allow for a more formalized approach to this service and also enhance the public transportation mode.

COMPONENT C: PLANNING & DEVELOPMENT

INTRODUCTION TO PLANNING AND DEVELOPMENT

Hlabisa Local Municipality has a Spatial Development Framework that is supported by well informed land-use policies, and aligned with the IDP. Most of the urban development is situated in close proximity of town. The diagram below presents the opportunity to be developed as a modern development corridor that supports the existing communities in Hlabisa Local Municipality.

The rural population forms approximately 93% of the Hlabisa population, and is one of the biggest weaknesses from an economic development and physical planning point of view. The result is unsatisfactory service levels and socio-economic development in the rural areas.

Future food security is important to Hlabisa Local Municipality and a lot of effort is being directed to protect the integrity of the agricultural areas.

3.10 PLANNING

3.11. LOCAL ECONOMIC DEVELOPMENT (INCLUDING TOURISM AND MARKET)

Paramount to the improvement of the quality of life for Hlabisa residents are the creation of employment opportunities. Employment opportunities are normally associated with a sustainable growing economy, which creates employment opportunities. Hlabisa Local Municipality promote local economic empowerment through the implementation of the Expanded Public Works Programme (EPWP), and the Community Works Programme (CWP)

The importance of Local Economic Development as part the growing of the economic sector is entrenched in the following definition of Local Economic Development” The purpose of local economic development (LED) is to build up the economic capacity of a local area to improve its economic future and the quality of life for all. It is a process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation”

It is by building up the economic capacity of a local area to improve its economic future and the quality of life for all that this definition is being fulfilled.

It is a process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation.

Job creation and eradication of poverty remain some of the highest priorities for South Africa. The problem however remains that job creation is occurring in the secondary and tertiary industries, while many people lack the necessary skills and education to benefit from this. This necessitates a focus on specific projects that would benefit the poorest of the poor, people with insufficient education and skills levels and more particularly people in rural areas, which are most adversely affected by poverty.

Efforts in this regard however have to be sustainable and viable in the long term and therefore have to move away from the “subsistence mentality” focusing on conventional sewing, poultry and vegetable garden projects.

CHAPTER 4

ORGANIZATIONAL DEVELOPMENT PERFORMANCE (PERFORMANCE REPORT PART II)

4.1. EMPLOYEE TOTAL, TURNOVER AND VACANCIES

DESCRIPTION	YEAR-1		EMPLOYEES NO.
	EMPLOYEES NO.	APPROVED POSTS NO.	
Water	0	0	0
Waste Water (sanitation)	0	0	0
Electricity	0	0	0
Waste management	0	0	0
Housing	0	0	0
Waste water (stormwater drainage)	0	0	0
Roads	0	0	0
Transport	0	0	0
Planning	0	0	0
Local Economic Development	1	3	4
Planning (Strategic & Regulatory)	1	4	5
Local Economic Development			
Community & Social Services	1	28	29
Environmental Protection	0	0	0
Health	0	0	0
Security & Safety	0	0	0
Sport & Recreation	0	0	0
Corporate Policy Offices & others	2	7	9
Total	5	42	47

COMPONENT B: MANAGING THE MUNICIPAL WORKFORCE

4.2. POLICIES

NO	NAME OF POLICY	COMPLETED	REVIEWED
		%	%
1	Affirmative Action	X	X
2	Attraction & Retention	X	X
3	Code of Conduct for employees	X	X
4	Delegations, Authorisation & Responsibility	X	X
5	Disciplinary Code & Procedures	X	X
6	Essential Services		
7	Employee Assistance / Wellness	X	X
8	Employment Equity	X	X
9	Exit Management	X	X
10	Grievance Procedures	X	X
11	HIV / Aids	X	X
12	Human Resource & Development	X	X
13	Information Technology	X	X
14	Job evaluation		
15	Leave	X	X
16	Occupational Health & Safety	X	X
17	Official Housing		
18	Official Journeys	X	X
19	Official transport to attend funerals		
20	Official working hours & overtime	X	X
21	Organizational Rights		
22	Payroll deductions		
23	Performance Management & Development	X	X
24	Recruitment, Selection & Appointments	X	X
25	Remuneration scale & allowances		
26	Resettlement		
27	Sexual harassment	X	X
28	Skills development		
29	Smoking		
30	Special skills		
31	Work organization		
32	Uniforms & protective clothing		
33	Other		

COMPONENT A : STATEMENT OF FINANCIAL PERFORMANCE

INTRODUCTION TO FINANCIAL STATEMENTS

1.1. STATEMENT OF FINANCIAL PERFORMANCE

FINANCIAL SUMMARY						
DESCRIPTION	2011/12	CURRENT 2012/13			2012/2013 VARIANCE	
	ACTUAL	ORIGINAL BUDGET	ADJUSTED BUDGET	ACTUAL	ORIGINAL BUDGET	ADJUSTMENTS BUDGET
REVENUE	64 650 715	59 852 718	58 356 005	51 226 365	(8 626 353)	(7 129 640)
COUNCILLORS ALLOWANCES	3 641 878	3 561 486	3 561 486	3 755 722	(194 236)	(194 236)
SALARIE & ALLOWANCES	12 922 711	20 468 806	16 782 138	14 323 407	6 145 399	2 458 731
GENERAL EXPENSES	50 664 323	36 285 755	27 334 018	27 579 318	8 951 737	(245 300)
REPAIRS & MAINTANANCE	541 469	375 000	825 000	774 674	(399 674)	50 326
CAPITAL PROJECTS	8 821 887	0	9 853 363	10 001 485	(10 001 485)	(148 122)
FIXED ASSETS	0	150 000	150 000	19 351	130 649	130 649
FINANCIAL PERFORMANCE OF OPERATIONAL SERVICES						
DESCRIPTION	2011/2012	2012/2013			2012/2013	
	ACTUAL	ORIGINAL BUDGET	ADJUSTMENTS BUDGET	ACTUAL	ORIGINAL BUDGET	ADJUSTMENT S BUDGET
OPERATING COST	71 799 007	36 285 755	27 334 018	27 579 318	8 951 737	(245 300)
Water						
Waste Water (sanitation)						
Electricity						
Waste management	1 557 625	876 138	858 678	1 485 968	(609 830)	(627 290)
Housing						
Component A: sub-total	1 557 625	867 138	858 678	1 485 968	(609 830)	(627 290)
Waste Water (Stormwater Drainage)						
Roads	0	0	2 519 530	2 457 342	(2 457 342)	62 188
Transport						
Component B: subtotal	0	0	2 519 530	2 457 342	(2 457 342)	

Planning						
Local Economic Development						
Component B: subtotal total						
Planning (strategic & regulatory)	5 806 426	2 013 036	2 358 810	1 405 168	607 868	953 642
Local Economic Development						
Component C: subtotal	5 806 426	2 013 036	2 358 810	1 405 168	607 868	953 642
Community & social services	1 300 614	1 254 294	846 066	1 271 491	(17 197)	(425 425)
Environmental protection						
Health						
Security & Safety						
Sport & Recreation	308 654	220 000	220 000	206 559	13 441	13 441
Corporate Policy Offices & other						
Component D: subtotal	1 609 268	1 474 294	1 066 066	1 478 050	(3 756)	(411 984)
Total expenditure						

1.2. GRANTS

GRANTS PERFORMANCE						
DESCRIPTION	2011/2012	2012/2013			2012/13 VARIANCE	
	ACTUAL	BUDGET	ADJUSTMENTS BUDGET	ACTUAL	ORIGINAL BUDGET %	ADJUSTMENTS BUDGET (%)
OPERATING TRANSFERS & GRANTS	14 656 712	15 288 000	15 288 000	12 789 680	84%	84%
NATIONAL GOVERNMENT	9 822 000	13 500 000	13 500 000	11 109 885	82%	82%
Equitable share	37 856 000	25 755 000	25 755 000	16 469 433	64%	64%
Municipal systems improvement		800 000	800 000	771 705	96%	96%
Department of water affairs						
Levy replacement						
Other transfers / grants – FMG	1 450 000	1 500 000	1 500 000	1 500 000	100%	100%
Other transfers / grants – EPWP						
Incentives						
PROVINCIAL GOVERNMENT						
Health subsidy						
Housing						
Ambulance subsidy						
Sports & recreation	150 000	150 000	675 000	183 019	100%	27%
Other transfers / grants FMG						
DISTRICT MUNICIPALITY						
Environmental Protection						
HIV						
Other grant providers						
SETA						
Disaster recovery						
TOTAL OPERATING TRANSFERS AND GRANTS						

1.3. ASSET MANAGEMENT - INTRODUCTION TO ASSET MANAGEMENT

TREATMENT OF THE THREE TARGETS ASSETS ACQUIRED 2012/2013				
ASSET 1				
NAME	HLABISA TESTING GROUND			
DESCRIPTION	TRAFFIC TESTING STATION			
ASSET TYPE	COMMUNITY ASSET (BUILDING)			
KEY STAFF INVOLVED	INFRASTRUCTURE PLANNING & DEVELOPMENT STAFF			
STAFF RESPONSIBILITIES	PROJECT MONITORING			
ASSET VALUE	2009/10	2010/11	2011/13	2012/13
	2 229 280	6 085 178	4 144 717	2 862 083
CAPITAL IMPLICATIONS				
FUTURE PURPOSE OF ASSET				
DESCRIBE KEY ISSUES				
POLICIES IN PLACE TO MANAGE ASSET				
ASSET 2				
NAME	MABHOKISINI COMMUNITY HALL			
DESCRIPTION	COMMUNITY HALL			
ASSET TYPE	COMMUNITY ASSET			
KEY STAFF INVOLVED	INFRASTRUCTURE PLANNING & DEVELOPMENT STAFF			
STAFF RESPONSIBILITIES	PROJECT MONITORING			
ASSET VALUE	2009/10	2010/11	2011/12	2012/13
			2 054 910	628 210.83
CAPITAL IMPLICATIONS				
FUTURE PURPOSE OF ASSET				
DESCRIBE KEY ISSUES				
POLICIES IN PLACE TO MANAGE ASSET				
ASSET 3				
NAME	NCWABAKAZI SPORTSFIELD			
DESCRIPTION	SPORTSFIELD			
ASSET TYPE				
KEY STAFF INVOLVED	INFRASTRUCTURE PLANNING & DEVELOPMENT STAFF			
STAFF RESPONSIBILITIES	PROJECT MONITORING			
ASSET VALUE	2009/10	2010/11	2011/12	2012/13
				1 562 552
CAPITAL IMPLICATIONS				
FUTURE PURPOSE OF ASSET				
DESCRIBE KEY ISSUES				

POLICIES INPLACE TO MANAGE ASSET	

REPAIRS AND MAINTENANCE EXPENDITURE				
	ORIGINAL BUDGET	ADJUSTMENT BUDGET	ACTUAL	BUDGET VARIANCE
Repairs & maintenance expenditure	375 000	825 000	774 674	50 326

1.4. FINANCIAL RATIOS BASED ON KEY PERFORMANCE INDICATORS

COMPONENT B: SPENDING AGAINST CAPITAL BUDGET

INTRODUCTION TO SPENDING AGAINST CAPITAL BUDGET

1.5. CAPITAL EXPENDITURE

CAPITAL EXPENDITURE – FUNDING SOURCES 2011/12 – 2012/13						
DETAILS	2011/12	2012/13				
	ACTUAL	ORIGINAL BUDGET	ADJUSTMENT BUDGET	ACTUAL	ADJUSTMENT BUDGET TO OBVARIANCE (%)	ACTUAL TO OB VARIANCE (%)
SOURCE OF FINANCE						
External loans						
Public contributions and						
Grants and subsidies	8 821 887	11 915 000	11 915 000	11 325 057	95%	95%
other						
TOTAL						
Percentage of finance						
External loans						

Public contributions and						
Grants and subsidies						
other						
CAPITALEXPENDITURE						
Water & Sanitation						
Electricity						
housing						
Roads & storm water						
Other						
TOTAL						
Percentage of expenditure						
Water & Sanitation						
Electricity						
housing						
Roads & storm water						
Other						

1.6. CAPITAL SPENDING ON 5 TARGETS PROJECTS

CAPITAL SPENDING ON 5 TARGETS PROJECTS					
R'000					
PROJECT NAME	CURRENT YEAR 0		VARIANCE CURRENT YEAR0		
	ORIGINALBUDGET	ADJUSTMENT BUDGET	ACTUAL EXPENDITURE	ORIGINAL VARIANCE (%)	ADJUSTMENT VARIANCE (%)
Ezifundeni - Mthekwini gravel road	1 186 039	1 186 039	1 159 560	98%	98%
Khalokazi gravel road	1 333 491	1 333 491	1 297 782	98%	97%
Ethembeni Multi purpose centre	4 666 883	4 666 883	2 591 723	56%	56%
Ncwabakazi Sportsfield	2 516 949	2 516 949	1 562 552	62%	62%
Mabhokisini Community Hall	2 800 000	2 800 000	2 683 121	96%	96%
PROJECTS WITH THE HIGHEST EXPENDITURE IN 2012/13					
NAME OF PROJECT – A	Hlabisa Testing Ground				
Objective of project	Traffic testing station				
Delays					
Future challenges					
Anticipated citizen benefits					
NAME OF PROJECT – A	Ethembeni Multi-Purpose Centre				
Objective of project	Multi-purpose centre				

Delays	
Future challenges	
Anticipated citizen benefits	
NAME OF PROJECT – A	Ncwabakazi Sports Field
Objective of project	Sports field
Delays	
Future challenges	
Anticipated citizen benefits	
NAME OF PROJECT – A	Khalokazi Gravel Road
Objective of project	Gravel road
Delays	
Future challenges	
Anticipated citizen benefits	
NAME OF PROJECT – A	Ezifundeni to Mthekwini Gravel Road
Objective of project	Gravel road
Delays	
Future challenges	
Anticipated citizen benefits	

1.7. BASIC SERVICE AND INFRASTRUCTURE BACKLOGS – OVERVIEW INTRODUCTION TO BASIC SERVICE AND INFRASTRUCTURE BACKLOGS

SERVICE BACKLOGS AS AT 30 JUNE 2013				
	HOUSEHOLDS (HHS)			
	SERVICE LEVEL ABOVE MINIMUM STANDARDS		SERVICE LEVEL BELOW MINIMUM STANDARD	
	NO. HHS	% HHS	NO. HHS	% HHS
Water				
Sanitation				
Electricity				
Waste management				
Housing				

MUNICIPAL INFRASTRUCTURE GRANT (MIG) EXPENDITURE 2012/13 ON SERVICE BACKLOGS						
R'000						
DETAILS	BUDGET	ADJUSTMENT BUDGET	ACTUAL	VARIANCE BUDGET	ADJUSTMENT BUDGET	MAJOR CONDITIONS APPLIED BY DONOR (CONTINUE BELOW IF NECESSARY)
INFRASTRUCTURE-ROAD TRANSPORT						
Roads, pavement & bridges	2 519 530	2 519 530	2 457 342	62 188	62 188	
Stormwater						
INFRASTRUCTURE – ELECTRICITY						
Generation						
Transmission & reticulation	12 000 000	12 000 000	4 384 895	7 615 105	7 615 105	
Street lightning						
INFRASTRUCTURE – WATER						
Dams & reservoirs						
Water purification						
Reticulation						
INFRASTRUCTURE – SANITATION						
Reticulation						
Sewerage purification						
INFRASTRUCTURE – OTHER						
Waste management						
Transportation						
Gas						
OTHER SPECIFY						
TOTAL						

COMPONENT C: CASH FLOW MANAGEMENT AND INVESTMENTS

1.8. CASH FLOW

CASH FLOW OUTCOMES				
DESCRIPTION	2011/2012 AUDITED OUTCOME	CURRENT 2011/2012		
		ORIGINAL BUDGET	ADJUSTED BUDGET	R'000 ACTUAL
CASH FLOW FROM OPERATINGACTIVITIES				
Receipts	70 227 104	59 852 718	58 356 005	51 226 365
Ratepayers & others	41 636 734	31 224 323	30 612 872	22 921 377
Government – operating	17 866 129	16 186 000	15 286 000	15 813 000
Government – capital	9 872 721	11 915 000	11 915 000	11 915 000
Interest	851 520	527 395	542 133	576 988
Dividends				
Payments				
Suppliers and employees	57 638 849	59 852 718	58 356 005	41 678 552
Finance charges				
Transfers & grants				
NET CASH FROM (USED) OPERATING ACTIVITIES	13 077 377	0	0	5 567 918
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts				
Proceeds on disposal of PPE				
Decrease (increase) in non- current debtors				
Decrease (increase) other non- current receivables				
Decrease (increase) non-current investments				
Payments				
Capital assets	15 542 548	150 000	9 853 363	10 020 836
NET CASHH FROM (USED) INVESTING ACTIVITIES				
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts				
Short term loans				
Borrowing long term / refinancing				
Increase (decrease) in consumer deposits				

Payments				293 829
Repayment of borrowing	895 783			
NET CASH FROM (USED) FINANCING ACTIVITIES				
NET INCREASE / (DECREASE) IN CASH HELD				766 852
Cash / cash equivalents at the year begin:	8 710 538	150 000	9 853 363	7 231 150
Cash / cash equivalents at the year end:	7 231 150			6 464 298

1.9. BORROWING AND INVESTMENTS

Marketable bonds			
Non-markertable Bonds			
Bankers acceptances			
Financial derivatives			
Other securities			
ENTITIES TOTAL			

CHAPTER 6 – AUDITOR GENERAL AUDIT FINDINGS

FINAL MANAGEMENT REPORT

CONTENT

Introduction	3.
Section 1: Meetings with oversight bodies and those charged with governance	3.
Section 2: Matters relating to the auditor's report	4.
Part A: Misstatements in the financial statements	4.
Part B: Matters to be brought to the attention of the users	5.
Part C: Conclusion on the annual performance report	5.
Part D: Findings on compliance with laws and regulations	6.
Part E: Internal control	8.
Part F: Status of implementation of commitments and recommendations	12.
Section 3: Specific focus areas	13.
Part A: Procurement and contract management	13.
Part B: Service delivery matters	14.
Part C: Financial indicators	15.
Part D: Consultants	18.
Part E: Fraud	18.
Section 4: Emerging risks	19.
Section 5: Ratings of detailed audit findings	20.
Section 6: Conclusion	20.
Section 7: Summary of detailed audit findings	21.
Detailed audit findings contained in annexures A – C	25.
Financial indicators contained in annexure D	94.

FINAL MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE HLABISA MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2013

INTRODUCTION

1. Our responsibility is to express an opinion on the financial statements, to express a conclusion on the annual performance report in the management report and to report on material findings relating to compliance with specific requirements in key applicable laws and regulations as set out in the *General Notice* issued in terms of the Public Audit Act, 2004 (Act No.25 of 2004). Our engagement letter sets out our responsibilities and the responsibilities of the accounting officer in detail.
2. This management report includes audit findings arising from the audit of the financial statements, reporting on predetermined objectives and compliance with laws and regulations for the year ended 30 June 2013 which were communicated to management and includes their response to these findings. The report also includes information on the internal control deficiencies that were identified as the root causes for the matters reported. Addressing these deficiencies will assist in ensuring an improvement in the audit outcomes.
3. The management report consists of executive summary, detailed audit findings which are contained in annexures A, B and C and financial health ratios and trends included in annexure D.

EXECUTIVE SUMMARY

SECTION 1: Meetings with oversight bodies and those charged with governance [\[E1\]](#)

4. During the audit cycle we met with key stakeholders to communicate matters relating to the audit outcomes of the municipality and emerging risks. Insight was provided on the drivers of the controls that impact these audit outcomes to enable corrective action to be taken.
5. Meetings were conducted as follows:
 - Executive authority, 31 January, 27 March, 28 August and 15 November 2013.
 - Accounting officer, 27 March, 28 August, 15 November and 26 November 2013.
 - Audit committee, 3 July 2012, 30 August 2012, 26 March 2013 and 5 April 2013.
6. At these meetings commitments were made to address improvements in the internal control environment with the objective of achieving a clean audit outcome. The commitments given and the progress made on previous commitments are included under section 2, part F – Status of implementation of commitments and recommendations.

SECTION 2: MATTERS RELATING TO THE AUDITOR'S REPORT

PART A – MISSTATEMENTS IN THE FINANCIAL STATEMENTS

7. Material misstatements in the financial statements were identified during the audit. These misstatements were not prevented or detected by the municipality's system of internal control. These material misstatements also constitute non-compliance with the section 122 of the MFMA.
8. The misstatements not corrected form the basis for the qualified opinion on the financial statements.

Material misstatements			Impact	Impact
Financial statement item	Finding (Include a brief description of misstatements as per findings and audit report. Include reasons for not correcting when applicable.)	Occurred in prior year ("Yes/ "No")	R current year	R prior year
Material misstatements not corrected				
Property, plant and equipment	Difference noted between the TB and AFS due to the incorrect posting during the year-end journals	No	R843 253	
Accumulated surplus			R7 443 546	
Depreciation / Accumulated surplus	Accounting policy incorrect applied resulting in the overstatement of depreciation & accumulated depreciation	Yes	R594 860	R1 623 818
Accumulated depreciation				
Impairment	Impairment not supported resulting in the overstatement of impairment & understatement of PPE	No	R4 251 974	
Property, plant and equipment				
Property, plant and equipment	No documentation submitted for the PPE restated amount resulting in the limitation of scope on those adjustment	Yes	R7 441 303	R7 441 303
Net cash flow from operating activities	Discrepancies noted recalculating cash flow resulting in overstatement	Yes	R1 731 416	



Receivables	Receivable not in agreement with the age analysis	No	R721 399	
Debts impairment	Debt impairment amount different to the amount as per the provision schedule	No	R856 852	
Material misstatements corrected				
Revenue	Overstatement of revenue	No	R997 013	
Non-current asset held for sale	Overstatement as a result of disposal not taken out	No	R972 067	
Bad debts	Understatement of bad debts written off	No	R405 840	
Unauthorised expenditure	Understatement noted in conditional grant not cash backed and overspending	No	R9 197 317	
Irregular expenditure	Irregular expenditure noted due to noncompliance with SCM	Yes	R2 306 564	R2 621 146
Infrastructure asset	Completed asset not transferred	No	R1 159 560	
Work in progress				
Commitment, approved and contracted for	Budget amount incorrectly used instead of contract	No	R1 961 287	
Commitment, approved but not yet contracted for	Disclosed without any obligation		R7 651 682	

PART B – MATTERS TO BE BROUGHT TO THE ATTENTION OF THE USERS

EMPHASIS OF MATTER PARAGRAPHS

The following emphasis of matter paragraphs will be included in our auditor's report to draw the users' attention to matters presented or disclosed in the financial statements:

Irregular expenditure

9. As disclosed in note 29 to the financial statements, irregular expenditure amounting to R7,71 million was incurred during the year, as a result of contravention of Municipal Supply Chain Management Regulations.

Unauthorised expenditure

10. As disclosed in note 30 to the financial statements, unauthorised expenditure amounting to R18,47 million was incurred during the year, as a result of utilisation of the conditional grants for municipal operations and over expenditure within the municipal votes.

Restatement of corresponding figures

11. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of an error discovered during 30 June 2013 in the financial statements of the Hlabisa Municipality at, and for the year ended, 30 June 2012.

ADDITIONAL MATTER PARAGRAPH

The following additional matter paragraph will be included in our auditor's report to draw the users' attention to matters regarding the audit, the auditor's responsibilities and the auditor's report:

Unaudited supplementary schedules

12. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon

PART C – CONCLUSION ON THE ANNUAL PERFORMANCE REPORT

FINDINGS ON PREDETERMINED OBJECTIVES

13. As required by sections 4 and 20 of the PAA, read with the *General Notice* issued in terms thereof, my responsibility is to prepare an audit conclusion on the annual performance report
14. I was unable to conclude on the usefulness and reliability of the annual performance report as it was not presented for audit as required by section 46 of the MSA and section 121(3)(c) of the MFMA.
15. The accounting officer is responsible for the preparation and fair presentation of the annual performance report in accordance with the identified performance management and reporting framework, as defined in paragraph 6 of the *General Notice* issued in terms of the PAA, regarding the planning, management, monitoring and reporting of performance against predetermined objectives and for such internal control as management determines necessary to enable the preparation of a annual performance report that is useful and reliable.
16. Although the annual performance report of Hlabisa Municipality was not submitted for audit, other relevant strategic planning and performance management documents were subjected to audit. The information as to whether performance indicators and targets are measurable (i.e.

well defined, verifiable, specific, measurable and time bound) and relevant. as required by the National Treasury *Framework for managing programme performance information*, was assessed. In this regard, I draw attention to the matters below:

Usefulness of information

Measurability

Performance targets not specific

17. The *FMPPI* requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 49% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.

Performance targets not measurable

18. The *FMPPI* requires that performance targets be measurable. The required performance could not be measured for a total of 54% of the targets. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.

Performance targets not time bound

19. The *FMPPI* requires that the time period or deadline for delivery be specified. A total of 97% of the targets were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.

Performance indicators not well defined

20. The *FMPPI* requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 36% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.

Audit findings in auditor's report

21. All audit findings included herein will be reported in the auditor's report.

PART D – FINDINGS ON COMPLIANCE WITH LAWS AND REGULATIONS

Included below are material findings of non-compliance with specific requirements in key applicable laws and regulations.

Strategic planning and performance management

22. The annual performance report for the year under review does not include the performance of the municipality, performance of each external service provider, a comparison of the performance with set targets, a comparison with the previous financial year, and measures taken to improve performance, as required by section 46(1) of the Municipal Systems Act (MSA).
23. The municipality did not afford the local community at least 21 days to comment on the final draft of its integrated development plan before the plan was submitted to council for adoption, as required by Municipal Planning and Performance Management Regulation 15(3).

Budgets

24. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements, performance and annual reports

25. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a qualified audit opinion.

Audit committees

26. The audit committee did not advise the council on matters relating to performance management and performance evaluation as required by section 166(2)(a) of the MFMA.

Procurement and contract management

27. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) and (c).
28. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
29. Quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
30. Quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.

Human resource management and compensation

31. The municipal manager and senior managers directly accountable to the municipal manager did not sign performance agreements by 31 July 2012, as required by section 57(2)(a) of the MSA.
32. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by the Regulations on Minimum Competency Levels regulation 14(2)(b).

Expenditure management

33. Reasonable steps were not taken to prevent unauthorised, irregular, fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Revenue management

34. A credit control and debt collection policy was not adopted and implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of MFMA.

Asset management

35. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

Liability management

36. Short-term debt was not repaid within the financial year, as required by section 45(4)(a) and (b) of the MFMA.







Consequences management











































37. Unauthorised, irregular, Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2)(a)(ii) and (b) of the MFMA.

PART E – INTERNAL CONTROL

IMPLEMENTATION OF THE DRIVERS OF INTERNAL CONTROL

38. The implementation of effective internal control helps in the achievement of important objectives and sustained and improved performance. Objectives are derived from the regulatory environment and fall into the following categories:
- Operations – Effectiveness and efficiency of operations including goals for operational and financial performance and safeguarding resources against loss (financial and performance management)
 - Reporting – Pertaining to the reliability of reporting including internal and external reporting of financial and non-financial information
 - Compliance – Pertaining to compliance with laws and regulations.
39. Objectives are driven by the mandate and the mission and vision of the organisation. Setting objectives is a prerequisite to internal control and a key part of strategic planning.
40. Internal control is a multi-dimensional iterative process of ongoing tasks and activities, affected by the people not just policies and systems, which provide assurance concerning the achievement of objectives. The fundamental principles contained in the drivers of internal control below must be present and operate together in order for the system of internal control to be effective.
41. For purposes of focusing corrective action, the principles of the different components of internal control have been categorised under leadership, finance and performance management and governance. These are the drivers of internal control.
42. The leadership of an organisation sets the tone from the top regarding the importance of internal controls and expected standards of conduct. This establishes the control environment which is the foundation for the other components of internal control and provides discipline, process and structure. In order to establish what control activities (e.g. policies and procedures) are required to ensure achievement of the control objectives a risk assessment should be conducted. The availability of accurate and complete information and the communication of information, another component of internal control, are required to carry out the day-to-day internal control activities. Thereafter there should be ongoing monitoring of activities (good governance) to ascertain whether all components of internal control are present and functioning.
43. When internal control is effective, management and those charged with governance have reasonable assurance that operations are managed effectively and efficiently, financial and non-financial reporting is reliable and laws and regulations are complied with.
44. Below is our assessment of the implementation of the drivers of internal control based on significant deficiencies identified during our audit of the financial statements, the annual performance report and compliance with laws and regulations. Significant deficiencies occur when internal controls either do not exist or are not appropriately designed to address the risk or are not implemented and which either had or could cause the financial statements or the

annual performance report to be materially misstated and material non-compliance with laws and regulations to occur. When the required preventative or detective controls are in place, it is assessed with a , when progress on the implementation of such controls were made but improvement is still required or where the actions taken are not or have not been sustainable, it is assessed with a , while  indicates that internal controls are not in place and intervention is required to design and implement appropriate controls. The movement in the status of the drivers from the previous year-end to the current year-end assessment is indicated, collectively for each of the three audit dimensions under the three fundamentals of internal control, with a  (improved),  (unchanged) or a  (regressed). The status of the commitments made by management is reported in part F.

The audit dimensions Fundamentals of internal control	Financial		Performance objectives		Compliance with laws and regulations	
	Current Yr	Prior Yr	Current Yr	Prior Yr	Current Yr	Prior Yr
Leadership						
Overall movement from previous assessment						
• Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity						
• Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls						
• Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored						
• Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities						
• Develop and monitor the implementation of action plans to address internal control deficiencies						
• Establish an IT governance framework that supports and enables the business, delivers value and improves performance						
Financial and performance management	Current Yr	Prior Yr	Current Yr	Prior Yr	Current Yr	Prior Yr
Overall movement from previous assessment						

• Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting						
• Implement controls over daily and monthly processing and reconciling of transactions						
• Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information						
• Review and monitor compliance with applicable laws and regulations						
• Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information						
Governance	Current Yr	Prior Yr	Current Yr	Prior Yr	Current Yr	Prior Yr
Overall movement from previous assessment						
• Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored						
• Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively						
• Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations						

LEADERSHIP

Effective leadership

45. There was instability in leadership in the year under review as the senior management posts were not filled for the whole financial year. Although the personnel has put structures in place to support ethical practices and good governance, these have not had the desired impact, as the required controls in this regard have not been designed and implemented to prevent and detect control deficiencies as well as non-compliance in a timely manner.

Oversight responsibility

46. Leadership has been ineffective in its oversight of financial, performance information and monitoring compliance with laws and regulations. This has resulted in the necessary controls not being formulated and implemented to ensure effective oversight, and controls which have been put into place for monitoring the compliance with laws and regulation being ineffective.

Human resource management

47. An assessment of human resource management has identified the following deficiencies:

Management of vacancies

- The senior management vacancy rate increased from 0% in the previous year to 75% in the current year.

Performance management

- Senior managers did not signed performance agreements for the current performance period by 31 July 2012

Minimum competencies

- The annual report of the municipal entity did not reflect information on compliance with prescribed minimum competencies as required by the Regulations on Minimum Competency Levels reg14(2)(b).

Leave administration

- The required medical certificates were not always submitted for sick leave taken.
- Processes and procedures were not in place to monitor sick leave.
- Special leave that was taken was not always supported by adequate documentation.

Policies and procedures

48. Leadership has not ensured that the documented policies and procedures for material transactions and operations of the municipality are effectively implemented and monitored. The policies that have been implemented by management are not adequately understood by employees to ensure that they are properly applied and monitored, resulting in numerous instances of non-compliance, as detailed under the “findings on compliance with laws and regulations” section of this report.

IT governance framework

49. As previously reported, an approved information technology governance framework was not approved and implemented. This may result in IT not being aligned to the objectives of the municipality and IT governance processes not being effectively undertaken.

FINANCIAL AND PERFORMANCE MANAGEMENT

Record management

50. The municipality did not compile and maintain an approved record classification system for paper based and electronic records in order to safeguard these records and facilitate their timely retrieval.

Daily and monthly processing and reconciling of transactions

51. Management did not implement the daily and monthly controls as designed for the municipality’s business processes, as a result monthly asset reconciliation were not performed.

Regular, accurate and complete financial and performance reports

52. The financial statements contained numerous misstatements that were not identified and corrected before submission to AGSA. This was mainly due to management not adequately

reviewing the AFS that were prepared by consultants and performance information was not reported as required by the legislation.

Compliance monitoring

53. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored.

IT systems

54. As previously reported, a formal Business Continuity Plan (BCP) was not in place and the Disaster Recovery Plan (DRP) was not implemented. This could lead to non recoverability of critical system data in the event of a disaster.

GOVERNANCE

Internal audit

55. The recommendations of internal audit are not effectively implemented by management.

Audit committee

56. The audit committee could not advise the council and the accounting officer on matters relating to performance evaluation and management as the required information was not made available during the period.

SUMMARY

57. The matters above, as they relate to the basis for qualified opinion, findings on the annual performance report and findings on compliance with laws and regulations, will be summarised in the auditor's report as follows:

Leadership

58. The vacancies in leadership positions impacted on the effectiveness of leadership at the municipality. Leadership did not ensure that personnel have an in-depth understanding of the requirements and therefore the policies and procedures were not effectively applied or monitored.

Financial and performance management

59. The monitoring of compliance with laws and regulations and with municipal policies and procedures was ineffective during the year under review. This resulted in errors in daily and monthly processing, and in the preparation of the financial statements. These errors were not detected and corrected on a timely basis. In addition, compliance with laws and regulations was not adequately monitored.

60. Performance report was not prepared and submitted in time for auditing.

Governance

61. Municipality did not effectively implement the recommendation of the internal audit resulting in the misstatement risks not being mitigated. Furthermore, the audit committee could not effectively discharge their responsibility in the performance evaluation and management due to the limitation imposed by management.

PART F – STATUS OF IMPLEMENTATION OF COMMITMENTS AND RECOMMENDATIONS

62. Below is our assessment of the progress on commitments made by senior management, the accounting officer and audit committee to address audit outcomes in the prior and current years.

No	Commitment	Made by	Date	Status
	Property, plant and equipment <ul style="list-style-type: none"> Review of prior year audited figures of AFS. Reconciliation of GL and FAR on quarterly basis. Safe keeping of all supporting documentation relating to any adjustments made in preparation of AFS will be kept for audit purposes. Assign official to be responsible for asset management and provide proper training. All completed projects should be transferred to the FAR in the year of completion. 	MM	30 Nov 2012	In progress <ul style="list-style-type: none"> Consultants were engaged to complete asset verification. Adjustments were processed on the opening balances however some were not supported. Discrepancies were noted when FAR was compared with AFS. Not all completed project were recorded in the asset register.
	Cash flow To ensure the review of AFS by CFO, Internal Audit and Audit Committee to ensure its correctness and its compliance to GRAP.	MM		In progress The disclosure was made on the submitted AFS and differences were noted.
	Budget disclosure To ensure preparation of Budget reconciliation and be included in the notes to the AFS.	MM		In progress Disclosure was made on the submitted AFS, however discrepancies were noted.
	Unauthorised expenditure To ensure disclosure of unauthorised expenditure in the AFS as a result of over expenditure in certain line items in the budget.	MM		In progress Disclosure was made on the AFS however it's not supported.
	Irregular expenditure <ul style="list-style-type: none"> To workshop staff on SCM Policy to be able to comply with the policy and regulations. Tax clearance certificates must be obtained for all transactions above R30 000 before the award is made. All service providers will be given the 	MM		In progress Register was introduced and there were processes in place that were implemented to facilitate the recording and reporting however understatement was noted

	<p>declaration forms to fill before an award or order is made.</p> <ul style="list-style-type: none"> • All bid documents must be kept in a safe place together with all documents submitted during the tender stage • Search works system is being used to verify shareholders of companies the municipality trade with before and award is made. • Training of SCM officials and Bid Committees with regards to the amended PPPFA and SCM Regulations. 			during the period as a result of noncompliance with the SCM and PPPFA regulations.
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63. Thirty five (35) audit recommendations accepted by management in the prior year regarding matters included in the auditor's report and other important matters were implemented or alternative actions were taken which resolved the prior year audit findings. Twenty four (24) recommendations are still in the process of being implemented. Detail on the status of these recommendations is provided in the summary of detailed findings in this report (section 8).

SECTION 3: SPECIFIC FOCUS AREAS

PART A – PROCUREMENT AND CONTRACT MANAGEMENT

SIGNIFICANT FINDINGS FROM THE AUDIT OF PROCUREMENT AND CONTRACT MANAGEMENT

64. The audit included an assessment of procurement processes, contract management and the related controls in place. To ensure a fair, equitable, transparent, competitive and cost-effective SCM system, the processes and controls need to comply with legislation and minimise the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices. A summary of the findings from the audit are as follows:

Irregular expenditure

65. R7 713 402(100%) of irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. A further R1 706 150 that was incurred in prior years was also identified. 30% (100% prior year) of this irregular expenditure was identified during the audit process and not detected by monitoring processes of the municipality. The root cause of the lack of effective prevention and detection are due to lack of understanding of the policies and procedures.

Procurement processes

66. The following findings on procurement processes result from the testing of four (4) contracts with a total value of R8 511 721, thirty (30) of price quotations with a total value of R960 565 and 5 consultants contracts with a total value of R4 411 702.

Procurement need and economy

- Five (5) major projects to the value of R4 411 702 were procured without a proper needs assessment being conducted in the form of project evaluation.

Procurement process – Quotations

- Two (2) awards to the total value of R37 302 were procured without inviting at least three written price quotations from prospective suppliers and the deviation was not approved by a properly delegated official.
- Four (4) quotations to the total value of R85 217 were procured from suppliers who did not have tax clearance from SARS confirming that their tax matters are in order.
- The preference point system was not applied in the procurement of seven (7) quotations to the total value of R396 445.
- Three (3) awards to the total value of R57 945 were procured without obtaining the declaration.

Procurement process - Competitive bidding

- One (1) deviations from competitive bidding to the total value of R1 812 034 was approved on the basis of section 32 however, noncompliance was noted in the process resulting in the irregular expenditure being incurred.

Internal control deficiencies

67. The fundamental of internal control of financial and performance management, and specifically the monitoring of compliance with laws and regulations, is not being effectively carried out by management.

PART B – SERVICE DELIVERY MATTERS

Roads infrastructure

68. The audit included an assessment of specific service delivery aspects relevant to the municipality. For the financial year under review focus was placed on the following:

Policies

The municipality does not have an approved policy in place for the planning, management and reporting of road infrastructure.

Planning and actual performance

The municipality has not achieved its target for the maintenance of roads.

Budget and MIG

We could not assess on how the municipality spend against the MIG funding on roads infrastructure as the allocation schedule was not submitted for audit.

Maintenance and Backlogs

The municipality does not have an approved road maintenance plan which clearly indicates the strategy to be followed for the financial year.

Road Asset Management System

The municipality does not have a road asset management system.

Internal control deficiencies

69. Necessary policies and procedures for road infrastructure planning, management and reporting is not in place.

PART C – FINANCIAL INDICATORS

70. Management is responsible for the sound and sustainable management of the affairs of the municipality and for implementing an efficient, effective and transparent financial management system for this purpose, as regulated by the MFMA.
71. Our audit included a high-level assessment of selected financial indicators as at year-end. The purpose of the assessment is to provide management with an overview of financial indicators to enable timely remedial action where financial health and service delivery may be at risk. The information should be used to complement rather than be a substitute for management's own financial assessment.
72. The entity's financial indicators have been assessed according to the following areas and are set out in the table below:
- budgets
 - expenditure management
 - revenue management
 - asset and liability management
 - conditional grants
73. The analyses on which the information in the table is based are contained in annexure D. The table is followed by overall high-level comments on the risks posed by the assessment of the financial indicators.

FINANCIAL INDICATORS							
(Limitation = unable to obtain sufficient appropriate information)		AS AT 30 JUNE 2013			AS AT 30 JUNE 2012		
BUDGET MANAGEMENT							
1.1	Percentage over-spending of the final approved operating expenditure budget	Not over-spent	% over-spent	Limitation	Not over-spent	% over-spent	Limitation
		X				7.6	
1.2	Percentage under-spending of the final approved capital budget	Not under-spent	% under-spent	Limitation	Not under-spent	% under-spent	Limitation
		X				10.3	
GRANT MANAGEMENT							
2.1	Percentage under-spending of conditional grants received	Not under-spent	% under-spent	Limitation	Not under-spent	% under-spent	Limitation
			42			35	



FINANCIAL INDICATORS						
(Limitation = unable to obtain sufficient appropriate information)		AS AT 30 JUNE 2013			AS AT 30 JUNE 2012	
EXPENDITURE MANAGEMENT						
3.1	Creditor-payment period	Days 30	Limitation	Days 16	Limitation	
REVENUE MANAGEMENT						
4.1	Debtor-collection period (before impairment)	Days 169	Limitation	Days 1033	Limitation	
4.2	Debtor-collection period (after impairment)	Days 69	Limitation	Days 307	Limitation	
4.3	Debtors impairment provision as a percentage of accounts receivable	% debtors impaired to accounts receivable 58.9	Limitation	% debtors impaired to accounts receivable 70.3	Limitation	
4.4	Debtors impairment provision as a percentage of revenue from goods and services rendered on credit	% debtors impaired to revenue from goods and services 27.2	Limitation	% debtors impaired to revenue from goods and services 139.3	Limitation	
ASSET AND LIABILITY MANAGEMENT						
5.1	A deficit for the year was realised (total expenditure exceeded total revenue)	No X	Yes X	Limitation	No X	Yes X
5.2	A net current liability position was realised (total current liabilities exceeded total current assets)	No X	Yes X	Limitation	No X	Yes X
5.3	A net liability position was realised (total liabilities exceeded total assets)	No X	Yes X	Limitation	No X	Yes X
5.4	Percentage of PPE and/or intangible assets impaired	% PPE and intangible assets impaired 10.2	Limitation	% PPE and intangible assets impaired 0	Limitation	
CASH MANAGEMENT						

FINANCIAL INDICATORS									
(Limitation = unable to obtain sufficient appropriate information)		AS AT 30 JUNE 2013				AS AT 30 JUNE 2012			
6.1	The year-end bank balance was in overdraft	No	Yes	Limitation		No	Yes	Limitation	
		X				X			
6.2	Net cash flows for the year from operating activities were negative	No	Yes	Limitation		No	Yes	Limitation	
		X						X	
6.3	Cash and cash equivalents as a percentage of operating expenditure	Bank in overdraft	% cash to operating expenditure	Limitation		Bank in overdraft	% cash to operating expenditure	Limitation	
			11.3						
6.4	Creditors as a percentage of cash and cash equivalents	Bank in overdraft	% creditors to cash	Limitation		Bank in overdraft	% creditors to cash	Limitation	
			34.8						
6.5	Percentage by which unspent conditional grants received exceeds cash available at year-end	Bank in overdraft	Not exceeded	% exceeded	Limitation	Bank in overdraft	Not exceeded	% exceeded	Limitation
				87.7				34.8	
6.6	Current liabilities as a percentage of net cash inflows for the year from operating activities	Negative/no cash flows	% current liabilities to cash inflows	Limitation		Negative/no cash flows	% current liabilities to cash inflows	Limitation	
			158.8					X	
6.7	Long-term debt as a percentage of net cash inflows for the year from operating activities	Negative/no cash flows	% long-term debt to cash inflows	Limitation		Negative/no cash flows	% long-term debt to cash inflows	Limitation	
			8.8				0		
6.8	Employee benefit obligation as a percentage of net cash inflows for the year from operating activities	Negative/no cash flows	% employee benefit obligation to cash flows	Limitation		Negative/no cash flows	% employee benefit obligation to cash flows	Limitation	
			0				0		
The above assessment is based on financial statement amounts, adjusted for uncorrected misstatements that resulted in the modification of the audit opinion.									

74. The municipality is at risk as there are not able to meet their current obligation and conditional grants are not cash backed.



PART D – CONSULTANTS

SIGNIFICANT FINDINGS FROM THE AUDIT OF USE OF CONSULTANTS

The audit included an assessment of the use of consultants. In the public sector environment, the partnership between the private and public sector has become important in driving strategic goals. To optimise the value of this partnership, this report identifies areas that need to be controlled to get the best value for money.

The table below summarises the consultancy contracts selected for testing together with an indication of areas where audit findings were identified.

Name of consultant	Type of service	Date of appointment	Value of award	Audit findings area			
				Planning & appointment process	Performance management & monitoring	Transfer of skills	Internal controls
ESP Consulting	Preparation of annual report	1 July 2011 (recurring)	R114 570	X	X	X	X
Umnotho Business consulting	Internal auditing	1 Jan 2010 (recurring)	R1 590 795	X	X		X
Protea Consulting	Preparation of annual financial statements	12 Apr 2011 (recurring)	R1 812 034	X	X	X	X
Umqondo consultancy	Development of disaster and emergency plan	12 Mar 2012 (recurring)	R533 718	X	X	X	X
Minatlou consultants & acc. Services	Preparation of FAR	New	R360 584	X	X		X

75. A summary of the findings from the audit is as follows:

Planning and appointment processes

- Consultants were appointed without a proper needs assessment being performed.

Performance management & monitoring

- Measures to monitor contract performance and delivery were not defined and/or implemented.

Transfer of skills

- Requirements for transfer of skills were not included in the terms of reference.

Internal control deficiencies

76. Necessary policy / strategy that define the main purpose, objective for appointing the consultants and measures to address over reliance on consultants not in place.

PART E – FRAUD

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Due to the inherent limitations of an audit there is a risk that some material misstatements including fraud may not be detected. Below is a summary of matters that indicate a risk of occurrence of fraud.

77. No fraud was identified or investigated by management during the period under review.

SECTION 4: EMERGING RISKS

Accounting and compliance matters

Corporate governance of information and communication technology policy framework

78. The Department of Public Service and Administration (DPSA), in cooperation with the Government Information Technology Officer Council (GITO), developed the corporate governance of information and communication technology policy framework (CGICTPF), which is applicable to all spheres of government, organs of state and public enterprises. Parliament approved the CGICTPF for implementation on 21 November 2012.

The CGICTPF provides the political and executive leadership with a set of principles and practices that must be complied with, together with a phased implementation approach to be followed for corporate governance of information and communication technology (ICT).

A task team was established by the Minister of Cooperative Governance and Traditional Affairs (CoGTA) to guide the implementation of the CGICTPF at municipalities, amongst others. A process is still underway to define implementation requirements that would be suitable for municipalities. The implementation guide and the dates for the phases defined for municipalities will be communicated by CoGTA, in collaboration with their provincial department.

79. Requirements to comply with minimum competency regulations by 1 July 2014.

80. Impact of National elections in terms of changes of political leadership, which may impact on the fiscal and economic stability.

81. Systems and controls that need to be in place to enable reliable and credible in year reporting in terms of MFMA circular 67, dated 12 March 2013.

82. Consider MFMA circular 69 on the implementation of thresholds for procurement using local content and the effective date.

83. Consider impact of proactive audit approach.

- Increased emphasis on integrated approach with performance audit with focus on infrastructure and service delivery.

84. New pronouncements/requirements

- Generally recognised accounting practice
 - The municipalities will need to assess the impact of new standards of GRAP as per ASB directive no. 5

SECTION 5: RATINGS OF DETAILED AUDIT FINDINGS

85. For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:

- Matters to be included in the auditor's report - These matters should be addressed as a matter of urgency.

- Other important matters – These matters should be addressed to prevent the likelihood that these matters may in future lead to material misstatements of the financial statements, material findings on predetermined objectives and compliance with laws and regulations.
- Administrative matters – These matters are unlikely to result in material misstatements of the financial statements, material findings on predetermined objectives and compliance with laws and regulations.

SECTION 6: CONCLUSION

86. The matters communicated throughout this report relate to the three fundamentals of internal control which should be addressed to achieve sustained clean administration. The AGSA staff remains committed to assisting in the process of identifying and communicating good practices to improve governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner.

Yours sincerely

Jabulani Nkosi

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15 November 2013

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CFO

Audit committee

Head of internal audit

SECTION 7: SUMMARY OF DETAILED AUDIT FINDINGS

Page no.	Finding	Classification					Rating			Number of times reported in previous 3 years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
Property, plant and equipment											
25.	Plant property and equipment differences	X					X			2	In progress
26.	Property, plant and equipment restated amount misstated	X					X			2	In progress
27.	Depreciation policy not applied	X					X			0	
29.	Assets impairment not supported	X					X			0	
30.	Work in progress overstated	X					X			2	In progress
Accumulated surplus											
31.	Accumulated surplus difference									0	
Cash flow											
32.	Cash flow differences	X					X			1	In progress
Non-current assets held for sale											

Page no.	Finding	Classification					Rating			Number of times reported in previous 3 years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
33.	Non-current assets held for sale misstatement	X					X			0	
Bad debts											
35.	Bad debts written off misstated										
Trade and other receivables											
35.	Trade and other receivables discrepancies	X					X			0	
37.	Debtors not effectively managed			X			X			2	In progress
Capital commitments											
38.	Overstatement of capital commitments	X					X			0	
Unauthorised, irregular, fruitless and wasteful expenditure											
39.	Differences in irregular, fruitless and wasteful expenditure	X		X			X			0	
40.	Unauthorised expenditure not monitoring	X		X			X			2	In progress
41.	Conditional grant not cash backed	X		X			X			2	In progress

Page no.	Finding	Classification					Rating			Number of times reported in previous 3 years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
42.	Fruitless and wasteful expenditure not prevented			X			X			2	In progress
43.	Investigation of IFW expenditure not performed			X			X			0	
44.	Incorrect condoning of IFW expenditure										
Procurement and contract management											
45.	Preference point system not stipulated or applied	X		X			X			2	In progress
46.	Appointment of consultant using section 32	X		X			X			0	
Performance information											
47.	Performance report not in accordance with legislation		X				X			0	
48.	Planned target achievement not reported		X				X			2	In progress
52.	Performance targets not time bound		X				X			2	In progress
53.	Performance targets not specific		X				X			2	In progress
55.	Performance targets not measurable		X				X			2	In progress

Page no.	Finding	Classification					Rating			Number of times reported in previous 3 years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
56.	Performance indicators/measures not well defined		X				X			2	In progress
57.	Sufficient time not afforded to the community		X				X			2	In progress
Human resources management											
58.	Compliance with minimum competencies not reported			X			X			0	
59.	Performance agreement not concluded timeously			X			X			0	
Cash and cash equivalent											
60.	Bank-overdraft not repaid at year-end			X			X			2	In progress
Governance											
61.	Audit committee discrepancies			X			X			0	
Unauthorised, irregular, fruitless and wasteful expenditure											
62.	Reporting on UIFW not performed			X				X		0	
Performance information											

Page no.	Finding	Classification					Rating			Number of times reported in previous 3 years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
63	Service delivery and budget implementation plan incomplete		X					X		2	In progress
63	Objectives not consistent between the IDP and budget		X					X		2	In progress
64	Deficiencies on the SDBIP process		X					X		0	
65.	Integrated development plan incomplete		X					X		0	
Information technology											
66.	Business continuity plan not approved or implemented				X			X		2	Not addressed
67.	IT Governance framework not implemented				X			X		2	Not addressed
Use of consultants											
68.	Consultants control deficiencies				X			X		0	
69.	Needs assessment not performed				X			X		0	
70.	Terms and condition not stipulated				X			X		0	
71.	Work of consultants not monitored				X			X		0	

Page no.	Finding	Classification					Rating			Number of times reported in previous 3 years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report Other important matters	Administrative matters			
72.	Transfer of skills not provided for in the consultant contracts				X			X		0	
Procurement and contract management											
73.	Bids not published			X				X		0	
74.	Awards made to supplier that did not declare	X		X			X			2	In progress
75.	Tax clearance certificate not obtained	X		X			X			2	In progress
76.	Three quotations not obtained			X				X		2	In progress
76.	Bidders not recorded			X				X		0	
78.	Award made to highest bidder without justification	X		X				X		0	
Expenditure management											
79.	Suppliers not paid within 30 days			X				X		2	In progress
Investment properties											

Page no.	Finding	Classification					Rating			Number of times reported in previous 3 years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
80.	Investment property discrepancies										
Property plant and equipment											
81.	PPE restated balances misstated	X						X		0	
Intangible assets											
82.	Intangible assets discrepancies	X						X		0	
Road Infrastructure management											
83.	Road Infrastructure performance discrepancies				X			X		0	
85.	Road Infrastructure spending				X			X		0	
Human resources management											
85.	Leave gratuity misstatement	X					X			0	
86.	Performance reviews not undertaken			X				X		0	

Page no.	Finding	Classification					Rating			Number of times reported in previous 3 years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
87.	No performance agreement for the staff			X				X		0	
88.	Leave not supported			X	X			X		2	In progress
90.	High senior management vacancy rate	X						X		0	
Related parties											
90.	Related parties unsupported	X						X		0	
Value Added Tax											
92.	VAT incorrectly disclosed	X						X		0	

DETAILED AUDIT FINDINGS

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

Property, plant and equipment

1. Plant property and equipment differences

Audit Finding

A comparison of current year annual financial statement submitted for audit and current year's submitted trial balance/ GL revealed the following Plant property and equipment differences:

Account number	Name	Amount As per the GL / TB	Amount as per AFS	Difference
8201/8250	Community	-7,170,348.86	-7,150,998.00	-19,350.86
8200/8220/01/0101	Work in progress	29,286,368.90	28,582,690.00	703,678.90
8201/8272	I T Equipment	-709,239.00	-706,239.00	-3,000.00
8200/8271/04/0403	Furniture and fixtures	19,350.86	1,378,422.00	-1,359,071.14
8201/8271		0	-792,680.00	-792,680.00
8200/8263/01/0101	Office Equipment	0	958,190.00	958,190.00
		21,426,131.90	22,269,385.00	-843,253.10

Internal control deficiency

- Reconciliation between the annual financial statement and trial balance / general ledger was not performed.
- Documentations relating to the adjustment processed during the preparation of the annual financial statements were not properly filed.

Recommendation

- Differences noted should be investigated and responses submitted
- Supporting documentation for the above adjustments and transfers needs to be furnished.
- Financial statement should be updated and reviewed to ensure that they are correct and comply with GRAP standards.

Management response



Agree with findings. Differences between Trial Balance and AFS were caused by posting of year end journals to incorrect accounts. Management has corrected the Trial Balance and adjusting journals will be submitted to auditors.

Name: FXH Mhlongo

Position: CFO

Date: 28 October 2013

Auditor's conclusion

Updated trial balance was reviewed and the above differences still exist. Matter will be reported in the audit report and management report.

2. Property, plant and equipment restated amount misstated

Audit finding

In terms of Section 63(2) (c) of the Municipal Finance Management Act, the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets. The accounting officer must for this purpose take all reasonable steps to ensure that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liability register, as may be prescribed.

The following discrepancies were noted when reviewing the updated fixed asset register and annual financial statement with regard to building, work in progress and community assets restatement amount with the net effect amounting to R7 441 303:

- (a) Based on the review of the work on progress schedule that was included in the fixed asset register it was noted that the management restated the amount that was qualified during the previous year. No adjustment or supporting documents were made available to substantiate the restated opening balance, resulting in the following difference:

	Per FAR	Per audited AFS	Difference
Opening balance	29 859 611	49 117 451	19 257 840

- (b) Furthermore, based on the review of the fixed assets register and the annual financial statement it was noted that the work in progress was restated by R1 859 705 and no supporting documentation was made available on request to support this adjustment.
- (c) Traffic office was re-allocated from building to community asset. However, amount was changed from R156 863 to R723 384. No evidence was submitted to confirm the restated amount resulting in a difference of R566 521

- (d) Gabadela community hall was recorded at the cost of R1 665 558 however a review of the completion certificate indicated that the total cost amounted to R1 425 379, resulting in the overstatement of R240 179.
- (e) Mabhokisini community hall was recorded in the schedule of work in progress at R2 466 373 and community asset at R628 211 resulting in the misstatement in both accounts. Based on the inspection of the certificate of practical completion it was noted that this asset was completed on 19 December 2012 at R1 973 704 however these task were still outstanding:
 - Cleaning of windows
 - Cleaning floors
 - De-establish site
 - Cut grass
- (f) The Inkosi sport complex asset was recorded twice on the fixed asset register and annual financial statement resulting in the overstatement totalling to R850 000

Internal control deficiency

- Reconciliation between the fixed asset register and the financial statements were not adequately performed.
- Documentation is not properly kept to ensure that its readily available upon request.
- Financial statements were not adequately reviewed prior to submission for audit on whether they are correct and comply with the applicable GRAP standards.

Recommendation

- Differences noted should be investigated and responses submitted together with the supporting documentation for the above adjustments.
- Fixed asset register and financial statement should be updated accordingly.
- Financial statements should be properly reviewed against the register to ensure that they are correct before being submitted for audit.

Management response

Agree with the findings. Differences were investigated and they occurred because incorrect amounts were used to populate WIP in the FAR. WIP has been corrected on the FAR , it will be submitted to auditors with supporting documents.

Name: FXH Mhlongo

Position: CFO

Date: 13 November 2013

Auditor's conclusion

Updated FAR and annual financial statements were reviewed and the above differences still exist and no further supporting documents was submitted. Matter will be reported in the audit report and management report.

3. Depreciation policy not applied**Audit Finding**

Based on the review of the accounting policy number 1.7.3 for the property, plant and equipment, on the annual financial statements it was noted that infrastructure for road and paving is calculated on the depreciable amount, using straight-line method over the estimated useful life of 15 years. However during the re-calculation a difference of R594 860 was noted as depicted below:

Infrastructure Depreciation per AFS	R239 295
Re-calculation performed using accounting policy per AFS	R834 155
Difference noted	R594 860

Based on the above it was concluded that the accounting policy was not applied and therefore the depreciation is understated and infrastructure assets overstated.

Furthermore, GRAP 17 paragraph 56 state that the useful life of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change shall be accounted for as a change in an accounting estimate in accordance with the Standard of GRAP 3, however, the municipality has incorrectly accounted for this change as the prior period error and adjusted the AFS retrospectively by R1 623 818 resulting in the overstatement of the infrastructure assets and accumulated depreciation.

Internal control deficiency

Financial statements were not adequately reviewed by management and audit committee before being submitted for audit to ensure that it's comply with GRAP.

Recommendation

- The difference noted needs to be investigated and response submitted.
- Necessary adjustments need to be made on the annual financial statements.
- Management needs to formulate processes to review and address any none compliance with the applicable reporting framework on the annual financial statements before being submitted for audit.

Management response

Agree with the finding. The municipality engaged services of the consultant on 06 August 2013 to perform condition assessment on all its assets. This scope included, revision of both useful lives and residual values. The scope also included impairment of assets based on the current value in use. The consultants have revised the useful lives making use of an expert. This resulted in roads and paving having the useful life of 25 – 40 years, traffic signs 10 years, storm-water 30 – 40 years, Electricity 10 years, Sanitation 10 years and water supply 30 years. The accounting policy had not been updated at the time of preparation of the AFS to reflect such changes and will be updated on final submission of the AFS to the auditors to carry out further audit procedures.

Name: FXH Mhlongo

Position: CFO

Date: 08 November 2013

Auditor's conclusion

The updated annual financial statements were received and based on the review the following was noted:

- (a) Accounting policy was changed from 15 years to 40 years for infrastructure roads as advised in the specialist reports.
- (b) The specialist report indicated that MFMA Local Government Capital Asset Management Guidelines were used for estimating the useful life.
- (c) Current years depreciation was based on the new adjusted accounting policy.
- (d) Prior year amount were restated, management indicated that this was as a result of prior period error.

Based on the MFMA Local Government Capital Asset Management Guidelines the set parameters is between 10 and 20. Furthermore, it states that should the municipality decide on different parameters then National Treasury should be approached and provided with a motivation for its agreement to the rate used.

GRAP 17 paragraph 56 indicates that the residual value and the useful life of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change shall be accounted for as a change in an accounting estimate in accordance with the Standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.

GRAP 3 paragraph 38 indicates that the effect of a change in an accounting estimate shall be recognised prospectively by including it in surplus or deficit in:

- (a) the period of the change, if the change affects that period only; or
- (b) the period of the change and future periods, if the change affects both

The municipality did not comply with MFMA Local Government Capital Asset Management Guidelines as well the applicable GRAP standards.

4. Assets impairment not supported

Audit Finding

GRAP 21 indicates that an entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable service amount of the asset. This Standard defines recoverable service amount as the higher of an asset's fair value less costs to sell and its value in use.

During the audit of property, plant and equipment it was noted that assets were impaired by a total amount of R4 251 974 however the recoverable service amount were not estimated in the specialist report resulting in the limitation of scope.

Note 8 to the financial statements indicated that specialists were used in the physical verification as well as valuation and that the depreciated replacement cost method was used however there was no evidence on the specialist report of the present value of the remaining service potential of an asset being determined as the depreciated replacement cost of the asset.

The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

Internal control deficiency

Municipality does not have the necessary capacity in the administration of the municipality to monitor and review the work performed by consultants.

Recommendation

- The report on the work performed by consultants need to be obtained and reviewed in line with the GRAP standards.
- Necessary adjustments need to be made on the annual financial statements.
- Expect report together with the financial statements needs to be furnished to the auditors.
- Management needs to formulate processes to review and address any none compliance with the applicable reporting framework on the annual financial statements before being submitted for audit.

Management response:

Management disagrees. IAS 36 allows the entity to calculate recoverable amount of an asset using either fair value less costs to sell or value in use. The municipality engaged the services of

a consultant as from 06 August 2013 to perform condition assessment on all its assets. This exercise was carried by an expert with adequate qualification and experience to execute such. The expert followed the value in use method to assess the impairment to be allocated to the municipality's assets, the methodology of which has been forwarded to the auditors. This method is an acceptable norm in the industry. The report depicts what % rating is attached to each class of asset's value following the industry's acceptable Visual Condition Index (VCI) for paved roads and Visual Gravel Index (VGI) for Unpaved Roads as per TMH12 as well as Local Government Capital Asset Management Guideline from National Treasury as required by MFMA for other classes of assets. This report further depicts the level of componentization followed by the expert as per industry norm, unit measurements and unit costs, as well as field photographs. This report is further attached to this communication for ease of reference.

Name: FXH Mhlongo

Position: CFO

Date: 08 November 2013

Auditor's conclusion

GRAP 21 is the applicable standard on impairment. Furthermore, report submitted for audit did not contain any indication of the estimated recoverable service amount as requires by GRAP.

5. Work in progress overstated

Audit finding

In terms of Section 63(2) (c) of the Municipal Finance Management Act, the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets. The accounting officer must for this purpose take all reasonable steps to ensure that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liability register, as may be prescribed.

A review of the completion certificate indicated that the following asset was completed during the year and should therefore be included in the property, plant and equipment however, the municipality has not transferred this asset resulting in the overstatement of work in progress by R1 159 560 and understatement of infrastructure asset cost by the said amount and depreciation by R12 884:

Details	Cost	Date as per Certificate
Gravel access road - Ezifundeni to Mthekwini	1 159 559.94	6 May 2013

Internal control deficiency

Controls to ensure that projects are properly monitored and transactions are accurately and timeously recorded were not effectively applied during the period under review.

Recommendation

- The fixed asset register should be regularly reconciled to the physical assets on hand.
- Controls to ensure that transactions incurred are processed accurately and on time were not always adhered to
- Property, plant and equipment note to the financial statements must be corrected

Management response

Agree with the finding. An error happened when compiling FAR where a completed asset was not capitalized but added on WIP. Management will correct the PPE note on AFS and reclassify WIP to Infrastructure asset and update the FAR.

Name: FXH Mhlongo

Position: CFO

Date: 28 October 2013

Auditor's conclusion

The financial statements and fixed asset register have been updated accordingly however, this still result in the material correction on the financial statement and the non-compliance will then be reported accordingly.

6. Accumulated surplus difference**Audit finding**

The following difference amounting to R7 443 546 were noted when the trial balance and the annual financial statements were compared:

Account number	Description	Amount per TB	AFS amount	Difference
9900/9940	Government grants reserves	-30,740,462.80	-73 978 949	-7 443 546
9900/9950	Public cont & donations reserves	-114,414.84		
9900/9955	Unappropriated surplus(current)	54,833.70		
9900/9959	Unappropriated surplus(previous)	- 35 735 358		

Internal control deficiency

The management does not ensure that the transactions are correctly processed to facilitate the preparation of the accurate and complete financial statements.

Recommendation

- Differences noted should be investigated and responses submitted together with the supporting documentation for the above adjustments.
- Updated annual general ledger and trial balance that reconciles to financial statements should be submitted to AGSA.

Management response

Agree with the finding. Differences were a result of misallocations when posting year end journals. Trial balance has been corrected and will be submitted to auditors together with supporting journals.

Name: FXH Mhlongo

Position: CFO

Date: 13 November 2013

Auditor's conclusion

Updated trial balance was reviewed and the above differences still exist. Matter will be reported in the audit report and management report.

7. Cash flow difference**Audit finding**

The following difference was noted during the re-performance of the net cash flows from operation in the cash flow statements resulting in the Cash flow from operating activities being understated:

Line items	As per the cash flow	Audit calculation	Difference
Cash flow from operating activities	R10 650 973	R8 919 557	R1 731 416

Internal control deficiency

Controls to ensure that financial statement are adequately reviewed by the chief financial officer and audit committee prior to submission for audit purpose were not always adhered to.

Recommendation

- Cash flow statement should be re-performed and reviewed to ensure that it's correct and comply with GRAP.
- Amended financial statement should be submitted to AGSA.

Management response

Attached please find cash flow calculations explaining where the amounts derive from. The amounts disclosed as Receipts and Payments can be changed, we just need to compare it to your workings, but in total the cash flow from operations will still be R9,947,294. If we change it to R9,992,493, then the cash flow won't balance.

The difference of R45,199 can be explained as the difference between R320 096 other receipts from non- exchange –R 274 900 interest expense).

We are just requesting your calculations as well.

Name: FXH Mhlongo

Position: CFO

Date: 04 November 2013

Auditor's conclusion

Workings were forwarded to the CFO, and a review of the updated financial statements indicated that the above differences still exist. Matter will be reported in the audit report and management report.

8. Non-current assets held for sale misstatements**Audit finding**

The following discrepancies were noted during the audit of non-current assets held for sale:

- Prior year was restated with an amount of R 2 154 803, this restatement was not valid since the resolution to sell the vacant land was taken on the 13 December 2012 and does not relate to the prior year.
- A review of the above resolution indicated that it was not signed and did not indicate any details of the land that was subject to sale.
- The following sites were sold during the financial year and agreements of sales were signed and finalised but they are still included in the fixed assets register and AFS:

ERF.	Carrying amount	Selling price per	Amount received to	Amount due to the
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Number	per FAR / Valuation roll	sale agreement	date per report submitted by the town planner	municipality
402	27 600	27 600	27 600	0
82	21 000	21 000	10 000	11 000
219/220	38 660	38 660	38 660	0
532	32 080	32 080	32 080	0
419	26 000	26000	26 000	0
801/02	598 000	589 000	589 000	0
294/295/296	170 000	170 000	30 000	140 000
221/222	40 000	40 000	30 000	10 000
799	18 860	18 860	18 860	0
Total	972 200	972 200	811 200	161 000

- (d) Furthermore, the proceeds amounting to R811 200 received during the year was incorrect included in the revenue and the amount of R161 000 that was not received during the period was not raised as receivables, resulting in the understatement of receivable and overstatement of revenue in the financial statements.

Internal control deficiency

- Management did not ensure that appropriate, recognition and measurement criteria were followed in line with the reporting framework.
- Financial statements were not adequately reviewed by management and audit committee before being submitted for audit.

Recommendation

- Differences noted should be investigated and responses be submitted to AGSA.
- Supporting documentation for the adjustments processed needs to be furnished.
- Financial statement and the FAR should be updated and reviewed to ensure that they are correct and comply with GRAP standards.

Management response;

Management agree to the findings. Differences on Trial Balance and AFS were a result of year end journals posted to incorrect accounts. Management will do the following:

- (a) Prior year restatement for non-current assets held for sale will be reclassified.
- (b) Formulation or writing of Resolutions will be improved to specify the details of the resolution taken by the Council.
- (c) Differences on the AFS and Trial Balance will be corrected and supporting documents will be submitted to auditors.
- (d) FAR will be corrected and adjust AFS to exclude the sites sold on the FAR.
- (e) We will adjust receivables and update AFS

Name: FXH Mhlango

Position: CFO



Date: 04 November 2013

Auditor's conclusion

Based on the review of the AFS the following was noted:

- (a) Receivable, revenue and other income were adjusted accordingly and the format of the resolution will be followed-up going forward.
- (b) The prior year restated amount was also adjusted accordingly in the AFS.
- (c) Fixed asset register and annual financial statements were adjusted to exclude the assets that were sold during the period.

However, this still result in the material correction in the financial statement and the non-compliance will then be reported accordingly.

9. Bad debts written off misstated

Audit finding

Difference was noted with regards to the bad debts amount that was recorded in the financial statements when compared to amount as per ledger / trial balance, councilor's resolution together with the schedule of the bad debts that were written:

Amount as per the schedule / resolution	R755 935
Amount as per financial statement	R320 095
Difference	R435 840

Internal control deficiency

Financial statements were not adequately reviewed before being furnished for audit by the accounting officer.

Recommendation

Difference should be investigated and financial statements must be amended accordingly.

Management response:

Agree with the finding, difference on trial balance has been corrected. Supporting journals for the adjustment in the Trial Balance will be submitted to auditors.

Name: FXH Mhlongo

Position: CFO

Date: 13 November 2013

Auditor's conclusion

The financial statements and TB have been updated accordingly however, this still result in the material correction on the financial statement and the non-compliance will then be reported accordingly.

10. Trade and other receivables discrepancies

Audit Finding

In terms of section 64 (2) (a) of the MFMA, the accounting officer must take all reasonable steps to ensure that the municipality has effective revenue collections system consistence with section 95 of the Municipal Systems Act and municipality's credit control and debt collection policy.

- (a) The following differences, were noted in rates and refuse receivable when comparing the trial balance, financial statements and the age analysis:

Account name	Balance per TB / AFS	Balance per Age analysis	Difference
Receivables	R1 099 638	R1 821 037	R721 399

- (b) The following differences, were noted in allowance for impairment when comparing the trial balance, financial statements and schedule of provision that was submitted for the audit:

Account name	Balance per TB / AFS	Balance per schedule	Difference
Provision for bad debts	R247 621	R1 104 473	R856 852

- (c) Furthermore, it was noted that incorrect receipting was performed in the previous year for the following debtors resulting in credit balance. Consequently, trade and other receipts is understated and accumulated surplus overstated:

Account number	Balance as per annual financial statement
BUS00000013	-1 175.51
BUS00000026	-69 855.55
	-71 031.06

Internal control deficiency

Controls to ensure that transactions are accurately recorded and processed were not always adhered to.

Recommendation

- Differences noted should be investigated and responses submitted together with the supporting documentation for the above adjustments.
- Financial statements should be updated accordingly and be submitted to AGSA

Management response



Agree with the finding. Differences between the Trial Balance and the AFS were caused by misallocations when posting year end journals. Journals have been posted to correct the differences found and will be submitted to auditors together with the corrected Trial Balance. Debtors with credit balances will be investigated and corrected properly on the AFS.

Name: FXH Mhlongo

Position: CFO

Date: 13 November 2013

Auditor's conclusion

Updated FAR and annual financial statements were reviewed and the above differences still exist between the trial balance and AFS. Matter will be reported in the audit report and management report.

11. Debtors not effectively managed

Audit Finding

In terms of section 64 (2) (a) of the MFMA, the accounting officer must take all reasonable steps to ensure that the municipality has effective revenue collections system consistence with section 95 of the Municipal Systems Act and municipality's credit control and debt collection policy.

Furthermore, MSA section 96 requires that a municipality must collect all money that is due and payable to it, and must adopt, maintain and implement a credit control and debt collection policy which is consistent with its rates and tariff policies and complies with the provisions of this Act.

Section 97 of the MSA requires that a credit control and debt collection policy must provide for:

- a) credit control procedures and mechanisms;
- b) debt collection procedures and mechanisms;
- c) provision for indigent debtors that is consistent with its rates and tariff policies and any national policy on indigents;
- d) interest on arrears, where appropriate;
- e) termination of services or the restriction of the provision of services when payments are in arrears;

During the audit of receivables it was noted that the municipality did not implement the credit and debt collection policy. Furthermore, long outstanding debtors are not handed over for collection.

Internal control deficiency

Required policies and procedures have not been formulated as required by the legislation.

Recommendation

- Management should ensure that credit and debt collection policy is developed, approved and implemented.
- Ongoing monitoring and supervision over the enforcement of the credit control policy should then be undertaken to ensure that revenue collection is maximized.

Management response

Agree with the finding. Credit Control and Debt Collection Policy has been approved by council. Handing over of outstanding accounts will be implemented as soon as attorneys have been appointed to handle the issues of overdue accounts.

Name: FXH Mhlongo

Position: CFO

Date: 04 November 2013

Auditor's conclusion

Non-compliance will be reported in the management and audit report.

12. Overstatement of capital commitments

Audit Finding

In terms of accounting guidelines on Generally Recognised Accounting Practice 19 (GRAP 19) issued by the National Treasury, 'items are classified as commitments when an entity has committed itself to future transactions that will normally result in an outflow of cash' and 'the disclosure for commitments are required to the extent that it has not already been recognised elsewhere in the financial statements.'

Section 11 of the accounting guidelines on GRAP 19 issued by the National Treasury states that, commitments for which disclosure is necessary to achieve fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- contracts should be non-cancellable or only cancellable at significant cost and contracts should relate to something other than the routine, steady, state business of the entity'
- 'unrecorded expenditure approved but not yet contracted for at reporting date is where expenditure has been approved but the contract has yet to be awarded or is awaiting finalisation, at reporting date.'

- (a) Contrary to the above, during the re-calculation of approved and contracted for commitment, it was noted that the municipality used the budget amount instead of a contract amount less expenditure incurred to date, resulting in a following differences:

Contractor Name	Municipality's calculation			Auditor's calculation		
	Budget	Expenditure	Balance	Contract Amount	Expenditure	Balance
Uhlanga Trading Enterprise & Inkonka Trading Enterprise	16,352,393.75	15,321,258.81	1,031,134.94	12,061,685.87	9,815,725.73	2,245,960.14
Vokon Afrika Consulting	12,000,000.00	10,780,798.07	1,219,201.93	11,400,000.00	10,210,798.07	1,189,201.93
I4Z Consulting	12,000,000.00	4,384,894.76	7,615,105.24	9,485,904.65	3,877,593.63	5,608,311.02
Lwandiswa Investments	2,800,000.00	2,683,120.83	116,879.17	1,660,681.00	2,683,120.80	(1,022,439.80)
Mbali Investment CC	4,666,883.00	2,591,722.82	2,075,160.18	4,666,883.21	2,591,722.82	2,075,160.39
Makhaleni Construction	1,186,039.00	1,159,559.94	26,479.06	1,186,039.47	1,159,559.94	26,479.53
J4 Gihovia Construction	1,333,491.00	1,297,782.48	35,708.52	1,333,491.06	1,297,782.48	35,708.58
Sthombe Contracts, Supplies and Projects CC	2,516,949.00	1,562,552.42	954,396.58	2,516,949.17	1,562,552.42	954,396.75
	52,855,755.75	39,781,690.13	13,074,065.62	44,311,634.43	33,198,855.89	11,112,778.54

- (b) Furthermore, it was noted that that the approved but not yet contracted for commitment amounting to R7 651 682 were based on the approved budget and there was no obligation as year-end.

Internal control deficiency

Management did not adequately review the financial information disclosed in the annual financial statements in order to ensure accuracy and proper classification of capital commitments prior to submission for audit.

Recommendation

Management should investigate the above difference and necessary adjustments be made on the financial statements.

Management response

Agree with the finding. Capital commitments were done using the budget amount not the contract amount. Management will correct the schedule of commitments and financial statement accordingly.

Name: FXH Mhlongo

Position: CFO

Date: 13 November 2013

Auditor's conclusion

The financial statements and fixed asset register have been updated accordingly however, this still result in the material correction on the financial statement and the non-compliance will then be reported accordingly.

13. Differences in irregular expenditure

Audit Finding

Differences were noted when comparing the closing balance of 2012 to the opening balance as disclosed in the financial statements:

Account name	Closing balance	Opening balance	Difference
Irregular expenditure	19,573,911.00	23,901,207.00	-4,327,296.00
TOTAL	19,573,911.00	23,901,207.00	-4,327,296.00

Internal control deficiency

Financial statements were not adequately reviewed prior to submission for audit on whether they are correct and comply with the applicable GRAP standards.

Recommendation

- Differences noted should be investigated and responses submitted to AGSA.
- Adjustment processed should be disclosed accordingly and updated AFS together with the supporting documents be submitted to AGSA for audit.

Management response

Agree with the finding. Opening balances of irregular expenditure and fruitless and wasteful expenditure was restated because of the qualification of the previous financial year which meant

it was incorrect. We will submit the list of irregular, fruitless and wasteful expenditure for 2011/2012 that supports the amounts disclosed in AFS as opening balances.

Name: FXH Mhlongo

Position: CFO

Date: 13 November 2013

Auditor's conclusion

Received the updated listing of irregular expenditure together with the adjusted annual financial statements and noted that the correction has been made however this still result in the material correction on the financial statement and the non-compliance will then be reported accordingly.

14. Unauthorised expenditure not monitored

Audit finding

Section 69 and 70 of the MFMA requires that the accounting officer implement adequate controls to reduce the risk of unauthorised expenditure and also indicate reporting mechanisms when this applies. The definition of unauthorised expenditure is elaborated upon in Chapter 1 of the MFMA. In this regard, the municipality has not performed an assessment of the over-spending per vote to identify possible unauthorised expenditure that may need to be disclosed in the financial statements and investigated and reported upon, as per section 32 of the MFMA. Consequently, we could not verify the correctness and completeness of the unauthorised expenditure totaling to R5 102 723 as disclosed in note 30 to the financial statements.

Internal control deficiency

Unauthorised expenditure was not monitored to ensure adherence to the MFMA.

Recommendation

- A compliance checklist must be put in place to identify and report any unauthorised expenditure on a monthly basis.
- The accounting officer must provide audit with a report on spending per department/vote compared to the actual results and report on any unauthorised expenditure.

Management response

Agree with the findings. Management disclosed unauthorized expenditure per line item not per vote. The management will develop a compliance checklist and keep the register of

unauthorized expenditure on a monthly basis. Expenditure per department comparison with the actual results will be submitted to auditors

Name: FXH Mhlongo

Position: CFO

Date: 04 November 2013

Auditor's conclusion

Based on the review of the Statement of comparative of budget and actual and updated financial statements submitted it was noted that the unauthorized expenditure was adjusted accordingly however, this still result in the material correction on the financial statement and the non-compliance will then be reported accordingly.

15. Conditional grant not cash backed

Audit finding

Division of Revenue Act, No. 5 of 2012 (DORA), section 15 state that despite anything to the contrary contained in any law, an allocation referred to in Schedules 4 to 9 may only be utilized for the purpose stipulated in the Schedule concerned and in accordance with the framework published in terms of section 14.

Furthermore section 33 states that any transfer made or spending of an allocation in contravention of this Act or a framework published in terms of this Act constitute an unauthorized expenditure in terms of the Municipal Finance Management Act.

During the review of the financial statements as well as auditing of conditional grants register, it was noted that the unspent conditional grants (excluding DOH- Disaster management grant) of R10 381 509 per note 13 of the financial statements were not cash backed. Our calculation revealed a short fall of R10 355 687 as depicted below:

Unspent conditional grants	R10 381 509
Amount held on the bank for grants	R 25 822
Difference	R10 355 687

A further review of the conditional grants register and unspent conditional grants note 13 to the AFS revealed a difference of R5 431 733 when comparing the DOH- Disaster management grant of R1 267 785 with the balance that was held for housing at year-end in the bank account of R6 699 518 as disclosed in note 6 to the financial statements.

Consequently, this indicate that the conditional grant funding was utilized for daily operating expenditure, which is contrary to the requirements of DORA and, therefore, deemed to be unauthorized expenditure.

Internal control deficiency

- Controls measures have not been implemented to monitor conditional grants received and ensure that there are used only for the intended purposes.
- Furthermore, controls to detect and record unauthorized expenditure accurately are not adhered to.

Recommendation

- The above matter needs to be investigated and responses submitted to AGSA.
- Necessary correction should be made on the financial statements for both the prior year and the current year.

Management response

Agree with the finding. Management used conditional grants for operations when cash flows were negative and they pay back the grant funds when cash flows are positive. Unauthorized expenditure will be disclosed correctly on the AFS. Management will ensure that conditional grant funds are not utilized for operations and will be invested separate and only used for intended projects.

Name: FXH Mhlongo

Position: CFO

Date: 04 November 2013

Auditor's conclusion

The financial statements has been updated accordingly however, this still result in the material correction on the financial statement and the non-compliance will then be reported accordingly.

16. Fruitless and wasteful expenditure not prevented

Audit finding

The accounting officer did not take reasonable steps to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

“fruitless and wasteful expenditure” means—



Expenditure that was made in vain and would have⁴ been avoided had reasonable care been exercised.

Contrary, to the above requirement the municipality had incurred interest amounting to R23 411 due to late payment on creditors.

Internal control deficiency

Adequate reconciliations and reviews were not undertaken to ensure that payments were made to suppliers within stipulated timeframes.

Recommendation

A payment schedule and register of invoices received should be used to monitor supplier payments to ensure adherence to prescribed requirements.

Management response

Agree with the finding. Payment schedule has been developed and the register of invoices has been developed to monitor payments to suppliers and to ensure that payments are made within 30 days and avoid incurring fruitless and wasteful expenditure

Name: FXH Mhlongo

Position: CFO

Date: 04 November 2013

Auditor's conclusion

Non-compliance will be reported in both management and audit report as this occurred in the current and previous years and could have been prevented if reasonable steps (implementation of adequate controls and processes) had been taken to prevent the re-occurrence.

17. Investigation of UIFW expenditure not performed

Audit Finding

Unauthorised, irregular, fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the Municipal Finance Management Act.

Internal control deficiency



Municipality does not have process to monitor and ensure compliance with the related laws and regulations.

Recommendation

- Management need to provide AGSA with the explanation.
- A compliance checklist needs to be formulated and reviewed to ensure future compliance with the related laws and regulations.

Management response

Agree with the finding. The council has not appointed any committee to investigate unauthorised, irregular, fruitless and wasteful expenditure incurred hence there is no report to be presented to auditors. Management will advise council to nominate or appoint a committee to do investigations on unauthorised, irregular, fruitless and wasteful expenditure incurred. Compliance checklist will be developed and monitored to ensure compliance with related laws and regulations.

Name: FXH Mhlongo

Position: CFO

Date: 08 November 2013

Auditor's conclusion

Non-compliance will be reported in both management and audit report

18. Incorrect condoning of IFW expenditure

Audit Finding

The condoning of irregular expenditure was not approved by the appropriate relevant authority, in accordance with the requirements of sections 1 and 170 of the Municipal Finance Management Act.

Furthermore, council certified the following irregular / fruitless and wasteful expenditure as irrecoverable without conducting an investigation by council committee to determine recoverability of the expenditure, as required by section 32(2) of the Municipal Finance Management Act.

Expenditure condoned	Amount
Irregular expenditure	23 716 008
Fruitless and wasteful expenditure	281 020

Internal control deficiency

Municipality does not have process to monitor and ensure compliance with the related laws and regulations.

Recommendation

- Management need to provide AGSA with the explanation.
- A compliance checklist needs to be formulated and reviewed to ensure future compliance with the related laws and regulations.

Management response

Agree with the finding. The council has not appointed any committee to investigate irregular, fruitless and wasteful expenditure incurred hence there is no report to be presented to auditors. Management will advise council to nominate or appoint a committee to do investigations on irregular, fruitless and wasteful expenditure incurred. Compliance checklist will be developed and monitored to ensure compliance with related laws and regulations.

Name: FXH Mhlongo

Position: CFO

Date: 08 November 2013

Auditor's conclusion

Annual financial statements have been adjusted. However, this result in material correction to the AFS and non-compliance will be reported in both management and audit report.

19. Preference point system not stipulated or applied**Audit Finding**

Section 3 of Preferential Procurement Policy Framework Act (PPPFA) 5 OF 2000 indicate that the 80/20 preference point system must be used to calculate the points for price in respect of tenders/procurement with a rand value equal to, or above R30 000 and up to a rand value of R500 000 and a maximum of 20 points may be awarded to a tender for attaining the B-BBEE status level of contributor.

Section 7 of Preferential Procurement Policy Framework Act (PPPFA) 5 OF 2000 requires that the municipality must, in the tender documents, or price quotations stipulate the preference point system which will be applied in the adjudication of tenders and quotations.

Contrary to the above the preference point system was not stipulated or applied in all procurement of goods and services above R30 000 to R200 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).

From a sample of 10 payments of goods and service transactions amounting to R692 911 tested the following 7 transactions amounting to R396 445 were procured in contravention with the legislation. Consequently, the extrapolated misstatement is R4 227 907 from a population of R7 389 585:

Supplier name	Description	Reference number	Amount
Sakhisizwe Technologies	supply of 2*laptop	SAK13509	32,414.00
Nengiwe Trading	Gymnasium building	INV38	26,391.00
Somamiya construction	tilling in the offices	SOMAMIYA52	138,500.00
Msineka Trading cc	replacement of roof timber beams	MSINEKA47	75,000.00
Manqele Mandla Pieter	transport hlabisa team	PO3547	35,000.00
Phathakahle construction cc	suck the septic tank	69	47,900.00
Esri South Africa (Pty) Ltd	Supply of HP GIS workstation	SAL005023	41,240.00
			396,445.00

Internal control deficiency

Controls to ensure that goods and services procured are in line with the applicable laws and regulations before approving were not always adhered to by management.

Recommendation

- Management must ensure that a route form is formulated where each step of the process should be signed off by the responsible official to ensure that all goods and service procured are in compliance with all the applicable laws and regulations. Furthermore, the route form will also assist to indicate the responsible official.
- The entire population needs to be investigated for similar non-compliance and all the irregular expenditure noted together with the above will have to be disclosed in the financial statements and the accounting officer will have to ensure that necessary steps as required by laws and regulations are followed.

Management response

Agree with the finding. Management accepts the recommendations of Auditor General and will implement the recommendation to have a route form. Camelsa Consulting Group have a service level agreement with the municipality and they only charge for the service offered in a particular month. Irregular expenditure will be raised and will update the AFS.

Name: FXH Mhlongo

Position: CFO

Date: 12 November 2013

Auditor's conclusion

The irregular expenditure register and the annual financial statements were updated accordingly. However, this still result in the material correction on the financial statement and the non-compliance will then be reported accordingly.

20. Appointment of consultant using section 32**Audit Finding**

It was noted that the municipality appointed Siyaya Aluminum and structures trading also known as Protea consulting for monthly management support and caseware implementation in terms of the section 32 of the municipal supply chain management regulation from 12 April 2011 to 30 June 2014. A concern was received from Jozini Municipality in line with the requirement of section 32 of the municipal supply chain management regulation however this concern was performed on 26 July 2011 after the appointment by Hlabisa Municipality.

Furthermore, a forensic investigation conducted in Jozini Municipality indicated that the contract was concluded without following the proper process as required by supply chain management regulations, therefore the expenditure incurred is regarded as irregular expenditure. A review of the irregular expenditure register did not indicate the expenditure relating to Protea consulting consequently the irregular expenditure for current and prior year is understated in the financial statement by R1 812 034 and R1 706 150 respectively.

Internal control deficiency

Municipality does not have process to monitor and ensure compliance with the related laws and regulations.

Recommendation

- Management need to provide AGSA with the explanation.
- A compliance checklist needs to be formulated and reviewed to ensure future compliance with the related laws and regulations.
- Financial statement irregular expenditure disclosure note needs to be updated and be submitted to AGSA.

Management response

Agree with the finding. The contract was concluded without following the proper process as required by supply chain management regulation, the concern letter was received from Jozini

Municipality but it is dated July 2011 but the contract started in April 2011. Currently we cannot confirm what happened because the people who were involved in the appointment of that service provider have all left the municipality. We will update irregular expenditure and AFS and include expenditure incurred for payment of Protea Consulting. We will develop and monitor a compliance checklist for all related laws and regulation going forward.

Name: FXH Mhlongo

Position: CFO

Date: 08 November 2013

Auditor's conclusion

The irregular expenditure register and the annual financial statements were updated accordingly. However, this still result in the material correction on the financial statement and the non-compliance will then be reported accordingly.

21. Performance report not in accordance with legislation

Audit finding

Section 46.(1)(a) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) provides inter alia that a municipality must prepare for each financial year an annual report consisting a performance report reflecting the municipality's, and any service provider's, performance during that financial year, also in comparison with targets of and with performance in the previous financial year; the development and service delivery priorities and the performance targets set by the municipality for the following financial year; and measures that were or are to be taken to improve performance.

Based on the review of the submitted annual performance report for the 2012/2013 the following was not submitted:

- Planned objective as well as the indicators
- Performance of the municipality against the planned objective / target
- External service provider's, performance
- A comparison of the performances of the external service provider's with targets set for and performance in the previous financial year
- Measures that were or are to be taken to improve performance

Internal control deficiency

Lack of review and monitoring of annual performance report to ensure that pertinent information has been included.

Recommendation

- Annual performance report should detail all the information as required by section 46 of the MSA.
- Furthermore, annual performance report must be reviewed by management and audit committee prior to submission for audit.

Management response

Agree with the finding. Annual Performance Report will be updated and include measures to improve performance where targets were not achieved

Name: FXH Mhlongo

Position: CFO

Date: 04 November 2013

Auditor's conclusion

The annual performance report that was submitted did not meet the requirement hence the performance information could not be audited resulting in the limitation of scope. This will be reported in the management and audit report.

22. Planned target achievement not reported**Audit finding**

The Municipal Systems Act, section 41(c) requires that the integrated development plan/service delivery agreement should form the basis for the annual performance report. Therefore, annual performance report should include the actual performance achieved of all planned objective, indicators / measures and target.

Based on the review of the annual report it was noted that, all (100%) selected planned objective, indicators / measures and target were not reported as required. This was due to the format that was used for reporting on performance information which was not in line with the guidance as issued by Treasury.

The following are the selected key performance indicators and targets that were planned however, not reported on:

Key performance area as per IDP	Planned development priorities/objectives as per SDBIP	Planned indicators/measures as per SDBIP	Planned targets as per SDBIP
MUNICIPAL TRANSFORMATION	To ensure the development of a	• Compliance with relevant legislation	1

AND INSTITUTIONAL DEVELOPMENT	credible IDP	• IDP/Budget alignment	
	To develop an effective and efficient disaster management system	Disaster Management Plan	1
	To ensure that the MTAS addresses priority issues	Review issues identified in the Municipal Turnaround Strategy	1
	To develop and enforce municipal by-laws	Develop and implement Municipal by-laws	2
	Develop and implement Individual PMS	Performance Agreements signed by Senior Managers	4
	To develop an effective and efficient mechanism to monitor organizational performance	<ul style="list-style-type: none"> • Submission of performance report in terms of Section 46 of the MSA • Develop and implement the SDBIP • Performance Assessment and review • Submission of mid-year report in terms of Section 52 of the MSA 	1 1 2 1
	Review and implement the Records Management Policy/Systems	Adopted Registry Management Policy/Systems	1
	Ensure safeguarding of information and business continuity in the case of disasters	Develop and implement Disaster Recovery Plan	1
GOOD GOVERNANCE & COMMUNITY PARTICIPATION	To implement an effective Anti-Corruption Strategy	Anti-Corruption Strategy / Fraud Prevention Plan	1
	Promotion of arts, culture and heritage	<ul style="list-style-type: none"> • Establishment of Arts & Culture Forum • Coordinate the sitting of Arts & Culture Forum meetings • Participation of Hlabisa maidens during the Reed Dance Ceremonies 	8 2 meetings 2
	Provide a framework for financial accountability	Develop and review budget related policies	1
	Support government initiatives to fight the scourge of HIV and AIDS	Participation during the 2012 World AIDS Day	1
	Provide strategic guidance in the implementation of HIV and AIDS Programmes	Revision of the HIV and AIDS Strategic Plan	1
	Support government initiatives of breaking the silence against women and children abuse	Participation during the 16 Days of Activism Awareness Campaign	1
	Conducting a need analysis on the services and assistance required by	Compilation of data for PwDs from all	1

	PwDs at ward level	wards	
	Ensure the functionality of Disability Forums	Coordinate the sitting of Disability Forum meetings	3
BASIC SERVICE DELIVERY AND INFRASTRUCTURE DEVELOPMENT	To facilitate provision of water and sanitation to a minimum of RDP standards	Signing of SLA's with DC 27 - free basic water, sanitation and electricity	Signed SLA with DC 27 by 30 December 2012
	To facilitate and improve road access network	Development of a comprehensive infrastructure development plan	1
	To develop and implement infrastructure maintenance plan	Implement infrastructure maintenance plan	1
	To develop a community facilities plan based on IDP analysis	IDP needs Report	1
	Facilitate the delivery of basic services in an effective and efficient manner	<ul style="list-style-type: none"> • Attend LTT meetings • Attend DTT meetings 	12 12
	To promote the local economy	<ul style="list-style-type: none"> • SMME Development • SMME Development 	1 5
	Waste Management	<ul style="list-style-type: none"> • Domestic refuse collection • Business refuse collection • Removal of sewerage in the business centre and municipal offices 	96 96 36
	Ensure community participation through sports and recreation	<ul style="list-style-type: none"> • Facilitate the establishment of Sports Committees • Attending of Sports Desk Council meetings • Coordinate Hlabisa Sports Day Event • Participation in Work & Play Event • Support preparations for 2012 KZN - SALGA Games 	4 4 1 1 2
	Compliance with Community Safety Regulations	<ul style="list-style-type: none"> • Develop and implement the Traffic Police Operational Policy Manual • Conduct camera law enforcement • Issuing summons to appear to Court • Conduct multi-disciplinary road blocks 	1 128 96 11
	Identification and implementation of electrification projects	Number of electricity connections	300
	Roads and Storm Water Management Programme	<ul style="list-style-type: none"> • Number of meetings • MIG database of registered projects adopted by Council 	1 1

	Procurement of the Plant	To have a municipal grader	1
	Maintenance of unpaved roads	km of gravel roads upgraded	100 km
	Prompt payment of invoices for contractors	Prompt payment of invoices for contractors	100%
SPATIAL PLANNING & ENVIRONMENTAL MANAGEMENT	Prepare and introduce Land Use Management System (LUMS) covering the whole municipal area.	Finalization of the Land Use Management Scheme for Hlabisa Town	1
	Establishment of a functional Geographic Information System	Functional GIS	1
SUSTAINABLE LOCAL ECONOMIC DEVELOPMENT	Support local SMMEs	Provide support to local SMMEs	100%
	Facilitate the establishment of agricultural projects	<ul style="list-style-type: none"> • Number of Commercial Farmers assisted • Number of farmers / cooperatives growing the Rose geranium plants. 	10 9
	Improve economic competitiveness through tourism	<ul style="list-style-type: none"> • Tourism Sector Plan adopted by Council • Number of potential investors engaged 	1 4
	Improving and promoting craft business and quality control	Number of Crafters developed and capacitated	20
FINANCIAL VIABILITY AND FINANCIAL MANAGEMENT	Manage assets and investments of the Municipality	Maintain Fixed Asset Register throughout the year	4
	Develop and implement an efficient and effective asset management system.	Land Disposal Policy adopted by Council	n/a
	Manage funds to ensure positive cash flows for Council to meet its obligations	<ul style="list-style-type: none"> • Prepare Monthly and Quarterly cash flows • Pay salaries and allowances on time 	12 12

Internal control deficiency

- Municipality does not have control in place to track and ensure that all planned objectives, indicators/measure and targets are reported on in the performance annual report and where

there were changes made that appropriately approved documentation is safely kept and issued upon request.

- Adequate reviews are not being undertaken to identify inconsistencies and respond to them in a timely manner.

Recommendation

- Treasury format must be used to report on the actual achievement of the planned objectives, indicators/measure and targets
- Directors of each section should review the quarterly reports to ensure that planned objectives, indicators/measure and targets are tracked and reported on and where target have not been achieved necessary actions are taken timeously.
- Annual report must also be review by management and audit committee to ensure that it's complete and in line with the guidelines.

Management response

Agree with the finding. The format used for the compilation of the annual report is from Treasury but other information was not captured properly as per the requirement of the act. Annual report will be amended to include the planed key performance indicators and targets.

Name: FXH Mhlongo

Position: CFO

Date: 12 November 2013.

Auditor's conclusion

Non-compliance will be reported in both management and audit report.

23. Performance targets not time bound

Audit finding

The National Treasury *Framework for managing programme performance information (FMPPI)* requires that the time period or deadline for delivery be specified. 100% of the targets were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles

	Selected material development priorities/objectives
MUNICIPAL TRANSFORMATION AND INSTITUTIONAL DEVELOPMENT	To ensure the development of a credible IDP
	To develop an effective and efficient disaster management system
	To ensure that the MTAS addresses priority issues
	To develop and enforce municipal by-laws
	Develop and implement Individual PMS
	To develop an effective and efficient mechanism to monitor organizational performance
	Review and implement the Records Management Policy/Systems
	Ensure safeguarding of information and business continuity in the case of disasters
GOOD GOVERNANCE & COMMUNITY PARTICIPATION	To implement an effective Anti-Corruption Strategy
	Promotion of arts, culture and heritage
	Provide a framework for financial accountability
	Support government initiatives to fight the scourge of HIV and AIDS
	Provide strategic guidance in the implementation of HIV and AIDS Programmes
	Support government initiatives of breaking the silence against women and children abuse
	Conducting a need analysis on the services and assistance required by PwDs at ward level
	Ensure the functionality of Disability Forums
BASIC SERVICE DELIVERY AND INFRASTRUCTURE DEVELOPMENT	To facilitate provision of water and sanitation to a minimum of RDP standards
	To facilitate and improve road access network
	To develop and implement infrastructure maintenance plan
	To develop a community facilities plan based on IDP analysis
	Facilitate the delivery of basic services in an effective and efficient manner
	To promote the local economy
	Ensure community participation through sports and recreation
	Compliance with Community Safety Regulations

	Waste Management
	Identification and implementation of electrification projects
	Roads and Storm Water Management Programme
	Procurement of the Plant
	Maintenance of unpaved roads
	Prompt payment of invoices for contractors
SPATIAL PLANNING & ENVIRONMENTAL MANAGEMENT	Prepare and introduce Land Use Management System (LUMS) covering the whole municipal area.
	Establishment of a functional Geographic Information System
SUSTAINABLE LOCAL ECONOMIC DEVELOPMENT	Support local SMMEs
	Facilitate the establishment of agricultural projects
	Improve economic competitiveness through tourism
	Improving and promoting craft business and quality control
FINANCIAL VIABILITY AND FINANCIAL MANAGEMENT	Develop and implement an efficient and effective asset management system.
	Manage assets and investments of the Municipality
	Manage funds to ensure positive cash flows for Council to meet its obligations

Internal control deficiency

The National Treasury *Framework for managing programme performance information (FMPPI)* has not been work shopped to ensure proper implementation

Recommendation

- Objectives should be revised and ensure that there in line with the requirement of the The National Treasury *Framework for managing programme performance information (FMPPI)*.
- Timelines should be set for all targets in order to assess and compare time taken to complete a certain objective against time budgeted for, and address the delays timely.

Management response

Agree with the finding. Management will ensure that when setting targets, time is linked with each target to ensure that targets are completed within the specified time.

Name: FXH Mhlongo

Position: CFO

Date: 13 November 2013



Auditor's conclusion

Non-compliance will be reported in both management and audit report.

24. Performance targets not specific

Audit finding

The National Treasury *Framework for managing programme performance information (FMPPI)* requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 49% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles:

	Selected material development priorities/objectives
MUNICIPAL TRANSFORMATION AND INSTITUTIONAL DEVELOPMENT	To ensure that the MTAS addresses priority issues
	To develop and enforce municipal by-laws
	Ensure safeguarding of information and business continuity in the case of disasters
	To develop an effective and efficient mechanism to monitor organizational performance
GOOD GOVERNANCE & COMMUNITY PARTICIPATION	Promotion of arts, culture and heritage
	Provide a framework for financial accountability
BASIC SERVICE DELIVERY AND INFRASTRUCTURE DEVELOPMENT	To facilitate provision of water and sanitation to a minimum of RDP standards
	To facilitate and improve road access network
	Facilitate the delivery of basic services in an effective and efficient manner
	To promote the local economy
	Compliance with Community Safety Regulations
	Roads and Storm Water Management Programme
	Prompt payment of invoices for contractors
SUSTAINABLE LOCAL ECONOMIC	Support local SMMEs
	Facilitate the establishment of agricultural projects

DEVELOPMENT	Improve economic competitiveness through tourism
	Improving and promoting craft business and quality control
FINANCIAL VIABILITY AND FINANCIAL MANAGEMENT	Manage assets and investments of the Municipality
	Manage funds to ensure positive cash flows for Council to meet its obligations

Internal control deficiency

The National Treasury *Framework for managing programme performance information (FMPPI)* has not been work shopped to ensure proper implementation

Recommendation

Planned targets /objectives should be revised and ensure that there in line with the requirement of the National Treasury *Framework for managing programme performance information (FMPPI)*

Management response

Agree with the finding. Management will revise planned targets to ensure that they are in line with the requirement of the National Treasury Framework.

Name: FXH Mhlongo

Position: CFO

Date: 14 November 2013

Auditor's conclusion

Non-compliance will be reported in both management and audit report.

25. Performance targets not measurable

Audit finding

The National Treasury *Framework for managing programme performance information (FMPPI)* requires that performance targets be measurable. The required performance could not be measured for a total of 54% of the targets. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles:

	Selected material development priorities/objectives
MUNICIPAL TRANSFORMATION AND INSTITUTIONAL DEVELOPMENT	To ensure the development of a credible IDP
	To develop an effective and efficient disaster management system
	To develop an effective and efficient mechanism to monitor organizational performance
	Ensure safeguarding of information and business continuity in the case of disasters
GOOD GOVERNANCE & COMMUNITY PARTICIPATION	To implement an effective Anti-Corruption Strategy
	Ensure the functionality of Disability Forums
	Promotion of arts, culture and heritage
BASIC SERVICE DELIVERY AND INFRASTRUCTURE DEVELOPMENT	To facilitate provision of water and sanitation to a minimum of RDP standards
	To facilitate and improve road access network
	Facilitate the delivery of basic services in an effective and efficient manner
	To promote the local economy
	Ensure community participation through sports and recreation
	Compliance with Community Safety Regulations
	Maintenance of unpaved roads
	Prompt payment of invoices for contractors
SUSTAINABLE LOCAL ECONOMIC DEVELOPMENT	Support local SMMEs
	Facilitate the establishment of agricultural projects
	Improve economic competitiveness through tourism
	Improving and promoting craft business and quality control
FINANCIAL VIABILITY AND FINANCIAL MANAGEMENT	Manage assets and investments of the Municipality
	Manage funds to ensure positive cash flows for Council to meet its obligations

Internal control deficiency

The National Treasury *Framework for managing programme performance information (FMPPI)* has not been work shopped to ensure proper implementation

Recommendation

Planned targets /objectives should be revised and ensure that there in line with the requirement of the National Treasury *Framework for managing programme performance information (FMPPi)*

Management response

Agree with the finding. Management will revise planned targets to ensure that they are in line with the requirement of the National Treasury Framework.

Name: FXH Mhlongo

Position: CFO

Date: 14 November 2013

Auditor's conclusion

Non-compliance will be reported in both management and audit report.

26. Performance indicators/measures not well defined

Audit finding

The National Treasury *Framework for managing programme performance information (FMPPi)* requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 36% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the *FMPPi* but did not receive the necessary training to enable application of the principles

		Material development priorities/objectives selected from SDBIP	Planned performance indicator/ measure per SDBIP
1	MUNICIPAL TRANSFORMATION AND INSTITUTIONAL DEVELOPMENT	To ensure the development of a credible IDP	<ul style="list-style-type: none"> • Compliance with relevant legislation • IDP/Budget alignment
2		To ensure that the MTAS addresses priority issues	Review issues identified in the Municipal Turnaround Strategy
3		To develop and enforce municipal by-laws	Develop and implement Municipal by-laws

4	BASIC SERVICE DELIVERY AND INFRASTRUCTURE DEVELOPMENT	To facilitate provision of water and sanitation to a minimum of RDP standards	Signing of SLA's with DC 27 - free basic water, sanitation and electricity
5		To facilitate and improve road access network	Development of a comprehensive infrastructure development plan
6		To develop a community facilities plan based on IDP analysis	IDP needs Report
7		Facilitate the delivery of basic services in an effective and efficient manner	<ul style="list-style-type: none"> • Attend LTT meetings • Attend DTT meetings
8		Roads and Storm Water Management Programme	<ul style="list-style-type: none"> • Number of meetings • MIG database of registered projects adopted by Council
9		Maintenance of unpaved roads	km of gravel roads upgraded
10		Prompt payment of invoices for contractors	Prompt payment of invoices for contractors
11	FINANCIAL VIABILITY AND FINANCIAL MANAGEMENT	Develop and implement an efficient and effective asset management system.	Land Disposal Policy adopted by Council
12	GOOD GOVERNANCE AND COMMUNITY PARTICIPATION	Support government initiatives to fight the scourge of HIV and AIDS	Participation during the 2012 World AIDS Day
13		Provide strategic guidance in the implementation of HIV and AIDS Programmes	Revision of the HIV and AIDS Strategic Plan
14		Support government initiatives of breaking the silence against women and children abuse	Participation during the 16 Days of Activism Awareness Campaign

Internal control deficiency

The National Treasury FMPPI has not been work shopped to ensure proper implementation

Recommendation

Planned targets /objectives should be revised and ensure that there in line with the requirement of the National Treasury FMPPI

Management response



Agree with the finding. Management will revise the planned targets and ensure that they are in line with the National Treasury Framework.

Name: FXH Mhlongo

Position: CFO

Date: 14 November 2013

Auditor's conclusion

Non-compliance will be reported in both management and audit report.

27. Sufficient time not afforded to the community

Audit finding

Municipal planning and performance management regulations (GNR. 796 of 24 August 2001) Regulation 15(3) requires that a municipality must afford the local community at least 21 days to comment on the final draft of its integrated development plan before the plan is submitted to the council for adoption.

However, during the review of the IDP process it was noted that the public was not afforded sufficient time to comment on the IDP. A review of the advert indicated that the public were invited to comment on the IPD from 16 April 2012 to 23 April 2012 which is 7 days.

Internal control deficiency

Municipality does not have process to monitor and ensure compliance with the related laws and regulations.

Recommendation

Management needs to provide AGSA with the explanation and a compliance checklist needs to be formulated and reviewed to ensure future compliance with the related laws and regulations.

Management response

Management agrees with the finding that public was given 7 days to comment on the IDP which is non-compliant with Planning and Performance Management Regulations. Management will ensure that the next IDP process will be followed properly and all time schedules will be

observed properly to ensure compliance with relevant laws and regulations. Compliance check lists will be developed and implemented by Management.

Name: FXH Mhlongo

Position: CFO

Date: 13 November 2013

Auditor's conclusion

Non-compliance will be reported in both management and audit report.

HR Compliance testing and evaluation

28. Compliance with minimum competencies not reported

Audit Finding

The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by the Regulations on Minimum Competency Levels regulation 14(2)(b).

Internal control deficiency

Municipality does not have process to monitor and ensure compliance with the related laws and regulations.

Recommendation

- Management need to provide AGSA with the explanation and update the annual report.
- Furthermore, a compliance checklist needs to be formulated and reviewed to ensure future compliance with the related laws and regulations.

Management response

Agree with the finding. The annual report was compiled using a Treasury template and some information was not captured in that template. We will correct and update the annual report and make sure that minimum competency information is included in the annual report. Compliance check list will be developed and monitored to ensure that we comply with all related laws and regulations.

Name: FXH Mhlongo

Position: CFO

Date: 12 November 2013

Auditor's conclusion

Non-compliance will be reported in both management and audit report.

29. Performance agreement not concluded timeously

Audit Finding

Section 57(2)(ii) of the Municipal Systems Act requires that the performance agreement of a person appointed as the municipal manager of a municipality, and person appointed as a manager directly accountable to the municipal manager must be concluded annually within one month after the beginning of each financial year of the municipality.

Contrary to the above the following performance contracts were not concluded by 31 July:

Employee name	Position
KE Gamede	Municipal Manager
BM Thusi	Chief Financial Officer
NZ Ndlela	Corporate and community services
SSS Manganya	Infrastructure, Planning and Development

Internal control deficiency

Municipality does not have process to monitor and ensure compliance with the related laws and regulations.

Recommendation

- Management need to provide AGSA with the explanation.
- A compliance checklist needs to be formulated and reviewed to ensure future compliance with the related laws and regulations.

Management response:

Agree with the finding. There is no reason why performance agreements were not concluded in time as per the regulation of the act. It was a non-compliance by the senior management during 2012/2013 financial year that is no longer with the municipality. Management will develop a compliance check list and maintain it to ensure compliance with related laws and regulations

Name: FXH Mhlongo

Position: CFO

Date: 08 November 2013

Auditor's conclusion

Non-compliance will be reported in the audit and management report.

30. Bank-overdraft not repaid at year-end

Audit finding

In terms of the Municipality's Principles and Policy on Borrowing and the Municipal Finance Management Act (MFMA) - Section 45, The Municipality:-

- (a) Must pay off short-term debt within the financial year; and
- (b) May not renew or refinance short-term debt, where such renewal or refinancing will have the effect of extending the short-term debt into a new financial year.

During the audit of cash and cash equivalents it was noted that the short-term debt, being the bank overdraft amounting to R638 015, was not paid off within the financial year contrary to MFMA.

Internal control deficiency

- The accounting officer or delegated official did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control by ensuring that the overdraft was cleared at year-end.
- The accounting officer had not ensured that the MFMA and policy were complied with resulting in non-compliance.

Recommendation

- The above matter to be investigated and this Office advised why the overdraft was not paid off at year-end as required and what measures have been put in place to clear the overdraft amount.
- Furthermore, management needs to put action plans into place to be able to pay off the overdraft in order to ensure compliance with the policy and MFMA.

Management response

Agree with the finding. Bank overdraft was a result of debit orders running through the account at midnight on the last day of the month of July 2013 and the available balance on the account was less than the debit order amount. That overdraft was paid within 24 hours.

Name: FXH Mhlongo

Position: CFO

Date: 04 November 2013

Auditor's conclusion

Non-compliance will be reported in both management and audit report.

31. Audit committee discrepancies

Audit finding

The audit committee did not advise the council on matters relating to performance management and performance evaluation as required by section 166(2)(a) of the Municipal Finance Management Act. This was as a result of the limitation of scope that was placed on the internal audit work scope by management.

During the period there was only one performance audit report relating to first quarter that was made available to us and based on the findings on that report a limitation was noted due to non-submission of the reports and documents by management.

Internal control deficiency

The accounting officer or delegated official did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control by ensuring that the necessary information is made available to the governance structures.

Recommendation

The accounting officer or delegated official needs to ensure that the audit committee through internal audit perform quarterly review of the performance information and that necessary information is made available to facilitate this.

Management response

Agree with the finding. Management will ensure that the quarterly performance information is submitted to Internal Audit for the Audit committee to perform the quarterly reviews.

Name: FXH Mhlongo

Position: CFO

Date: 13 November 2013

Auditor's conclusion

Non-compliance will be reported in both management and audit report.

ANNEXURE B: OTHER IMPORTANT MATTERS**32. Reporting on UIFW expenditure not performed****Audit Finding**

The municipality did not adhere to section 32(4) of the MFMA which requires that, the accounting officer must promptly inform the mayor, the MEC for local government in the province and the Auditor-General, in writing, of the following:

- any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality;
- whether any person is responsible or under investigation for such unauthorised, irregular or fruitless and wasteful expenditure; and
- the steps that have been taken—
 - to recover or rectify such expenditure; and
 - to prevent a recurrence of such expenditure

Internal control deficiency

Municipality does not have process to monitor and ensure compliance with the related laws and regulations.

Recommendation

- Management need to provide AGSA with the explanation.
- A compliance checklist needs to be formulated and reviewed to ensure future compliance with the related laws and regulations.

Management response

Agree with the finding. unauthorized, irregular, fruitless and wasteful expenditure register was prepared during the preparation of AFS and submitted to council for the council to condone the expenditure. We have corrected the process by having a register which is updated on the monthly bases since July 2013 and we report these expenditures to council on quarterly bases since the council meetings are held on a quarterly bases. We will inform MEC for local government and Auditor General about expenditure identified as unauthorized, irregular, fruitless and wasteful.

Name: FXH Mhlongo

Position: CFO

Date: 08 November 2013

Auditor's conclusion

Non-compliance will be reported in the management report and followed-up during quarterly interactions.

33. Service delivery and budget implementation plan incomplete

Audit finding

MFMA section 53(3)(a) requires that the mayor must ensure that the revenue and expenditure projections for each month and the service delivery targets and performance indicators for each quarter, as set out in the service delivery and budget implementation plan, are made public no later than 14 days after the approval of the service delivery and budget implementation plan;

Contrary to the above, the SDBIP of the municipality for 2012/2013 did not include revenue and expenditure projections.

Internal control deficiency

Pertinent information is not identified and captured in a form and time frame to ensure compliance with the laws and regulations.

Recommendation

- The municipality must formulate a checklist and document all laws and regulation that they are required to comply with and assign an employee to track and report on compliance on a monthly basis.
- Above report must be reviewed by the accounting officer and table in monthly council meeting and necessary action taken.

Management response

Agree with the finding. SDBIP compilation has been assigned to HR Manager while the municipality is still in a process of appointing PMS Officer. Checklist will be developed and monitored by the designated official when identified.

Name: FXH Mhlongo

Position: CFO

Date: 04 November 2013

Auditor's conclusion



Non-compliance will be reported in the management report and followed-up during quarterly interactions.

34. Objectives not consistent between the IDP and budget

Audit Finding

The annual budget of the municipality is not based on the development priorities and objectives as well as the performance targets set by the municipality in its IDP as required by regulation 6 of the Municipal Planning and Performance Management Regulations, 2001. A comparison of the following documents revealed different budgeted amount being budgeted:

- | | |
|--|-------------|
| • IDP budgeted amount | R99 748 815 |
| • SDBIP budgeted amount | R40 011 115 |
| • Budget amount as per approved budget | R48 856 792 |

Internal control deficiency

Reviews and controls measures to ensure that at least key objectives and priorities are budgeted for and achieved were not evident.

Recommendation

The municipality should ensure that adequate resources (budget) are made available for the planned key objectives as per the IDP or SDBIP.

Management response:

Agree with the finding. Management will ensure that Alignment of the objectives on the IDP and Budget and the SDBIP is done and management will properly review the alignment for the 2013/2014 financial year and going forward.

Name: FXH Mhlongo

Position: CFO

Date: 04 November 2013

Auditor's conclusion

Matter will be reported in the management report and followed-up during quarterly interactions.



35. Deficiencies on the SDBIP process

Audit finding

Section 53(1)(c)(ii) of the MFMA requires the mayor of a municipality must take all reasonable steps to ensure that the municipality's service delivery and budget implementation plan is approved by the mayor within 28 days after the approval of the budget.

Municipal budget and reporting regulations (GN 393 of 2009) Regulation 20(2)(b) requires that the municipal manager must submit to the National Treasury and the relevant Provincial Treasury, in both printed and electronic form the approved service delivery and budget implementation plan within ten working days after the mayor has approved the plan

Contrary to the above during the review of the SDBIP process the following non-compliances were noted:

- (i) The SDBIP was not approved within 28 days.
- (ii) No evidence was made available to confirm that the municipality submitted the SDBIP to National Treasury and provincial treasury, in both printed and electronic formats, within 10 days of their approval.

Internal control deficiency

Municipality does not have process to monitor and ensure compliance with the related laws and regulations.

Recommendation

- Management need to provide AGSA with the explanation.
- Furthermore, a compliance checklist needs to be formulated and reviewed to ensure future compliance with the related laws and regulations.
- An intern should be allocated a responsibility of ensuring compliance with laws and regulations through monitoring timeframes relevant to the SDBIP approval and submission to Treasury.

Management response

Agree with the findings. SDBIP was not tabled to Mayor within 28 days after the approval of the Budget. Management requested COGTA to assist in the compilation of the SDBIP and to align it to the IDP and budget which delayed the process of tabling it to the mayor within 28 days.

Name: FXH Mhlongo

Position: CFO

Date: 13 November 2013.

Auditor's conclusion

Matter will be reported in the management report and followed-up during quarterly interactions.

36. Integrated development plan incomplete

Audit finding

Section 26(g) of the Municipal System Act required that applicable disaster management plans must be reflected on the integrated development plan (IDP).

Contrary to the above the municipality did not ensure that the disaster management plans are reflected on the adopted IDP.

Internal control deficiency

Municipality does not have process to monitor and ensure compliance with the related laws and regulations.

Recommendation

- Management need to provide AGSA with the explanation and update the annual report.
- Furthermore, a compliance checklist needs to be formulated and reviewed to ensure future compliance with the related laws and regulations.

Management response

Agree with the findings. The municipality did not have a disaster management plan in place hence it was not part of the IDP. Compliance check list will be developed and implemented to ensure compliance with relevant laws and regulations.

Name: FXH Mhlongo

Position: CFO

Date: 13 November 2013

Auditor's conclusion

Matter will be reported in the management report and followed-up during quarterly interactions.

37. Business continuity plan not approved or implemented

Audit finding

In terms of the Section 62 (1)(c)(i) of the MFMA, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

The following discrepancies were noted with regards to information technology management:

- Business Continuity Plan (BCP) was not approved nor implemented during the year to ensure the successful resumption of business operations in the event of a disaster.

Internal control deficiency

Adequate policies and procedures not implemented due to oversight and lack of capacity.

Recommendation

A Business Continuity Plan (BCP) that is based on a business impact analysis should be developed, approved and implemented. The BCP should therefore indicate what business will do in the event of a disaster.

Management response:

Agree with the finding. Management will develop the business continuity plan and implement it.

Name: FXH Mhlongo

Position: CFO

Date: 04 November 2013

Auditor's conclusion

Matter will be reported in the management report and followed-up during quarterly interactions.

38. IT Governance framework not implemented

Audit finding

In terms of the Section 62 (1)(c)(i) of the MFMA, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

At the time of the audit an IT governance framework that gives due consideration to the risks, processes and controls required to ensure IT value and improved service delivery, had not yet been approved nor implemented. Without an implemented IT governance framework that serves as a basis for defining and managing IT process risks and mapping the processes against defined standards and policies, IT governance processes cannot be effectively undertaken.

Internal control deficiency

Inadequate identification and management of risk due to an IT governance framework not yet developed and implemented.

Recommendation

An Information Technology (IT) framework should be approved and implemented.

Management response:

Agree with the finding. Management is currently busy with a process of developing IT Framework once it is approved it will be implemented by the management.

Name: FXH Mhlongo

Position: CFO

Date: 04 November 2013

Auditor's conclusion

Matter will be reported in the management report and followed-up during quarterly interactions.

Use of consultants

39. Consultants control deficiencies

Audit Finding

The following internal control deficiencies were noted during the audit on consultants:

- Municipality does not have policy/ strategy in place that defines / include the following:
 - the main purposes and objective for appointing consultants

- measures to address over reliance on consultants.
- No evidence could found indicating that management reviews, at least on an annual basis, whether the objectives of the institution are better achieved through use of consultants or permanent staff.
- No evidence could found indicating that consultants are made aware that they should not do the following
 - recruit or attempt to recruit the employees of the municipality in preparation of a bid for contract at the auditee
 - recruit the employees of the municipality during execution of the relevant contract or any part thereof at the auditee.
- No evidence that could found indicating that management analyses the extent of the use of consultants.

Internal control deficiency

The accounting officer has not ensured that that there is policy / strategy in place to regulate, monitor and report on the work of consultants.

Recommendation

- The policy / strategy needs to be formulated and work shopped before implementation.
- Annual reviews needs to be conducted on the needs to use consultants
- The recruitment clause by the consultants should be included in the advert / policy
- Management needs to analyse the extent on the use of consultant at least on a yearly basis.

Management response:

Agree with the finding. Management will develop a policy or strategy that will include the purpose and objective of appointing consultants, and use of consultants will be reviewed annually

Name: FXH Mhlongo

Position: CFO

Date: 08 November 2013

Auditor's conclusion

Matter will be reported and followed-up during the quarterly interactions.

40. Needs assessment not performed

Audit Finding

No evidence was furnished indicating that a formal needs assessment was done prior to appointing the following consultant as required by Supply Chain Management regulation 10 and SCM: A Guide for Accounting Officers of Municipalities and Municipal Entities Chapter 3.1 and 3.2:

No.	Consultant name	Description of services rendered	Total cost
1	ESP Consulting	preparation of annual report	114,570.00
2	Umntho Business consulting	Internal auditing	1,590,795.40
3	Protea Consulting	preparation of annual financial statements	1,812,034.00
4	Umqondo consultancy	development of disaster and emergency plan	533,718.27
5	Minatlou consultants & acc. Services	preparation of FAR	360,584.00

Internal control deficiency

- The accounting officer has not ensured that there is policy / strategy in place to regulate, monitor and report on the work of consultants
- Documentation is not properly kept to ensure that it's readily available upon request.

Recommendation

- The policy / strategy needs to be formulated and work shopped before implementation.
- Necessary report / requisition needs to be furnished to the auditors

Management response:

Agree with finding. No formal need assessment was done but use of consultants is because of lack of skills and capacity to perform a certain function. The policy will be developed and workshoped before it is implemented.

Name: FXH Mhlongo

Position: CFO

Date: 08 November 2013

Auditor's conclusion

Matter will be reported and followed-up during the quarterly interactions.

41. Terms and condition not stipulated**Audit Finding**

Section 116 (1)(b)(i) of the MFMA requires that a contract or agreement procured through the supply chain management system of a municipality must:

- (i) stipulate the terms and conditions of the contract or agreement, which must include provisions providing for the termination of the contract or agreement in the case of non- or under performance

However based on the review of the contracts of the following consultant there was no evidence that the following clause were included:

- The terms and conditions for the termination of the contract in the case of non- or underperformance
- Penalty clauses are included in the contract.

No.	Consultant name	Description of services rendered	Total cost
1	ESP Consulting	preparation of annual report	114,570.00
2	Umntho Business consulting	Internal auditing	1,590,795.40
3	Protea Consulting	preparation of annual financial statements	1,812,034.00
4	Umqondo consultancy	development of disaster and emergency plan	533,718.27
5	Minatlou consultants & acc. Services	preparation of FAR	360,584.00

Internal control deficiency

The accounting officer has not ensured that there is policy / strategy in place to regulate, monitor and report on the work of consultants and that contract concluded are in line with the requirements of the applicable legislation.

Recommendation

- The policy / strategy needs to be formulated and work shopped before implementation.
- Management must ensure that contract / agreement concluded are in line with the requirements of the applicable legislation.

Management response:

Agree with the findings. Lack of capacity in terms of developing memorandum of agreements and contracts is the cause of not having agreements that have terms and conditions for termination of contract for non-performance. Management will ensure that contract / agreement concluded are in line with the requirements of the applicable legislation.

Name: FXH Mhlongo

Position: CFO

Date: 08 November 2013

Auditor's conclusion

Matter will be reported and followed-up during the quarterly interactions.

42. Work of consultants not monitored

Audit Finding

The municipality did not adhere to section 116(2) of the MFMA which requires that that the accounting officer of a municipality must:

- (a) Take all reasonable steps to ensure that a contract or agreement procured through the supply chain management policy of the municipality is properly enforced.
- (b) Monitor on a monthly basis the performance of the contractor under the contract or agreement
- (c) Establish capacity in the administration of the municipality to assist the accounting officer in carrying out the duties set out in paragraphs (a) and (b) and to oversee the day-to-day management of the contract or agreement.
- (d) Regularly report to the council of the municipality, as may be appropriate, on the management of the contract or agreement and the performance of the contractor

Internal control deficiency

The accounting officer has not ensured that there is policy / strategy in place to regulate, monitor and report on the work of consultants.

Recommendation

- The policy / strategy needs to be formulated and work shopped before implementation.

- The policy / strategy must outline the procedures for monitoring and reporting as required by MFMA.
- Accounting officer needs to ensure that municipality has the necessary capacity to enforce as well as monitor the work performed by consultants effectively.

Management response:

Agree with the finding. A policy will be developed and workshopped and implemented to ensure that that consultants are monitored effectively.

Name: FXH Mhlongo

Position: CFO

Date: 08 November 2013

Auditor's conclusion

Matter will be reported and followed-up during the quarterly interactions.

43. Transfer of skills not provided for in the consultant contracts

Audit Finding

Based on the discussion conducted with the Chief Financial Officer it was confirmed that the following contract were procured as a result of skill shortage within the municipality. However a review of the contracts concluded did not indicate that the following clauses were included as required by SCM regulation 35(1) and SCM: A Guide for Accounting Officers of Municipalities and Municipal Entities Chapter 5.7:

- i) skills / knowledge to be transferred;
- ii) time frames for skills transfer;
- iii) monitoring and evaluation arrangements for skills transfer;
- iv) the cost of the training programme;
- v) measures to monitor the transfer of skills;
- vi) employees to be trained have been identified and are available to attend the training programme;
- vii) evidence that skills have been actually transferred.

No.	Consultant name	Description of services rendered	Total cost
1	ESP Consulting	preparation of annual report	114,570.00
2	Umnotho Business consulting	Internal auditing	1,590,795.40
3	Protea Consulting	preparation of annual financial statements	1,812,034.00

4	Umqondo consultancy	development of disaster and emergency plan	533,718.27
5	Minatlou consultants & acc. Services	preparation of FAR	360,584.00

Internal control deficiency

The accounting officer has not ensured that there is policy / strategy in place to regulate, monitor and report on the work of consultants and that contract concluded are in line with the requirements of the applicable legislation.

Recommendation

- The policy / strategy needs to be formulated and work shopped before implementation.
- Management must ensure that contract / agreement concluded are in line with the requirements of the applicable legislation.

Management response:

Agree with the finding. A policy will be developed, workshoped and implemented and ensure that agreements concluded are in line with the requirement of applicable legislation.

Name: FXH Mhlongo

Position: CFO

Date: 08 November 2013

Auditor's conclusion

Matter will be reported and followed-up during the quarterly interactions.

44. Bids not published

Audit finding

Regulation 23 (c) of the SCM regulation requires the accounting officer to ensure the following:

- To records in a register all bids received on time
- To make the register available for public inspection
- To publish the entries in the register and the bids result on the website of the municipality

No evidence could be submitted to confirm that a register of bids received on time were made available for public inspection and that entries as well as result were published on the website of the municipality as required.

Internal control deficiency

Municipality does not have process to monitor and ensure compliance with the related laws and regulations.

Recommendation

- Management need to provide AGSA with the explanation and update the annual report.
- Furthermore, a compliance checklist needs to be formulated and reviewed to ensure future compliance with the related laws and regulations.

Management response

Agree with the finding. The municipality did not publish the results of bids on the website but they were published on the notice board in the municipal office. Register of bids received is also kept but not made public for inspection. The municipality will publicize the results of bids on both the website and on the notice board of the municipality. The register of bids received will also be made available to public for inspection. Compliance check list will be developed and maintained to ensure compliance with relevant laws and regulations.

Name: FXH Mhlongo

Position: CFO

Date: 12 November 2013

Auditor's conclusion

Matter will be reported and followed-up during the quarterly interactions.

45. Awards made to supplier that did not declare

Audit Finding

Sufficient appropriate audit evidence could not be obtained that the following awards were awarded only to bidders who submitted a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). A

review of the irregular expenditure register indicated that these payments of goods and service were included and properly disclosed in the annual financial statements:

Supplier name	Description	Reference number	Amount
Trans - Atlantic equipment (PTY) Limited	Calibration of speed machines	INV6256	12,996.00
Nomsiya catering and contruction	catering at the Sukuma sakhe war room workshop	000758	15,000.00
Media 24	Advert CFO post	000999	29,948.94

Internal control deficiency

Controls to ensure that goods and services procured are in line with the applicable laws and regulations before approving were not always adhered to by management.

Recommendation

- Management must ensure that a route form is formulated where each step of the process should be signed off by the responsible official to ensure that all goods and service procured are in compliance with all the applicable laws and regulations. Furthermore, the route form will also assist to indicate the responsible official.
- The entire population needs to be investigated for similar non-compliance and all the irregular expenditure noted together with the above will have to be disclosed in the financial statements and the accounting officer will have to ensure that necessary steps as required by laws and regulations are followed.

Management response

Agree with the finding. Trans - Atlantic equipment (PTY) Limited, Nomsiya catering and contruction and Media 24 did not declare that they are employed by the state or connected with any person who is employed by the state. Management accepts the recommendations of the Auditor General and will implement them.

Name: FXH Mhlongo

Position: CFO

Date: 13 November 2013

Auditor's conclusion

Matter will be reported and followed-up during the quarterly interactions.

46. Tax clearance certificate not obtained

Audit Finding

Awards were made to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM regulation 43. The following 4 transactions were procured in contravention with the legislation. A review of the irregular expenditure register indicated that these payments of goods and service were included and properly disclosed in the annual financial statements:

Supplier name	Description	Reference number	Amount
Trans - Atlantic equipment (PTY) Limited	Calibration of speed machines	INV6256	12,996.00
Media 24	Advert CFO post	000999	29,948.94
Haigs mower & chainsaw	Supply of brush-cutter	IO58729	24,122.81
SollyM Sports	Supply of sports equipment	INA60658	18,149.11

Internal control deficiency

Controls to ensure that goods and services procured are in line with the applicable laws and regulations before approving were not always adhered to by management.

Recommendation

- Management must ensure that a route form is formulated where each step of the process should be signed off by the responsible official to ensure that all goods and service procured are in compliance with all the applicable laws and regulations. Furthermore, the route form will also assist to indicate the responsible official.
- The entire population needs to be investigated for similar non-compliance and all the irregular expenditure noted together with the above will have to be disclosed in the financial statements and the accounting officer will have to ensure that necessary steps as required by laws and regulations are followed.

Management response

Agree with the finding. Management accepts the recommendations of the auditors and will implement them. AFS will be updated as well as irregular expenditure register.

Name: FXH Mhlongo

Position: CFO

Date: 13 November 2013

Auditor's conclusion



Matter will be reported and followed-up during the quarterly interactions.

47. Three quotations not obtained

Audit Finding

Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c). A review of the irregular expenditure register indicated that these payments of goods and service were included and properly disclosed in the annual financial statements:

Supplier name	Payment number	No. of quote obtained	Description	Amount
Media 24	000636	None	Placing of the advert	R 7 353.00
Media 24	000999	One	Advert CFO post	R29 948.94

Internal control deficiency

Controls to ensure that goods and services procured are in line with the applicable laws and regulations before approving were not always adhered to by management.

Recommendation

Management must ensure that a route form is formulated where each step of the process should be signed off by the responsible official to ensure that all goods and service procured are in compliance with all the applicable laws and regulations. Furthermore, the route form will also assist to indicate the responsible official.

Management response

Agree with the finding. Media 24 is a company that has a group of companies that deals with newspapers and when we request quotation from newspapers like city press, daily sun and Sunday times they submit a quotation from Media 24. Recommendations of Auditor General are accepted and will be implemented to ensure full compliance of SCM regulations.

Name: FXH Mhlongo

Position: CFO

Date: 12 November 2013

Auditor's conclusion



From the response above it can be concluded that media 24 is a sole supplier, therefore the approval should be sort from the responsible official and the amount spends could be disclosed in the deviation register. Matter will be reported and followed-up during the quarterly interactions.

48. Bidders not recorded

Audit Finding

Supply Chain Management regulation 16(d) requires that the accounting officer must record the names of the potential provides requested to provide such quotation with their quoted price.

Contrary to the above the municipality did not record the names of potential providers who submitted quotations together with their quoted prices as required for the following awards:

Supplier name	Description	Reference number	Amount
Sakhisizwe Technologies	supply of 2*laptop	SAK13509	32,414.00
Nengiwe Trading	Gymnasium building	INV38	26,391.00
Somamiya construction	tilling in the offices	SOMAMIYA:52	138,500.00
Msineka Trading cc	replacement of roof timber beams	MSINEKA47	75,000.00
Manqele Mandla Pieter	transport hlabisa team	PO3547	35,000.00
Phathakahle construction cc	suck the septic tank	69	47,900.00
Camelsa consulting group -		INV0792	33,000.00
ND Manandi - Repair of street light	Repair of street light	63	14,000.00
Trans - Atlantic equipment (PTY) Limited	Calibration of speed machines	INV6256	12,996.00
Nomsiya catering and construction	catering at the Sukuma sakhe war room workshop	000758	15,000.00
Phathakahle construction cc	Draining of the septic tank	INV70	17,980.00
Media 24	Advert CFO post	000999	29,948.94
Mamdway trading enterprice cc	supply of uniform	245	18,501.61
Nosiwakhe construction service	cleaning of the septic tank	INVNO43	19,500.00
Waltons	Supply and delivery of stationery	001002	7,968.51
SA Ngcamu	cleaning materials	000859	5,980.00
Ndiyema Transport / construction cc	transport from Hlabisa to Nongoma enyokeni	00852	10,000.00
Media 24	placing of the advert	000636	7,353.00
Zulquip supply service cc	13 mitres kanaflex pipe for cleaning of ceptic tank	000838	3,763.84
Khonelihle catering and supply	Catering	85	5,500.00

Internal control deficiency

Municipality does not have process to monitor and ensure compliance with the related laws and regulations.

Recommendation

- Management need to provide AGSA with the explanation and update the annual report.
- Furthermore, a compliance checklist needs to be formulated and reviewed to ensure future compliance with the related laws and regulations.

Management response

Agree with the finding. We did not keep a register of all other awards except public tender awards. We were including all quotations received to the payment voucher including recording verbal quotations to the order issued. Compliance check list will be developed and monitored to ensure full compliance with relevant laws and regulations.

Name: FXH Mhlongo

Position: CFO

Date: 13 November 2013

Auditor's conclusion

The details of the quotation received, does not need to be recorded on the register this can be documented on the specific form, which could also be used to document decision made on choosing a specific supplier. This form can then be attached to the voucher. Matter will be reported and followed-up during the quarterly interactions.

49. Award made to highest bidder without justification**Audit Finding**

The following award with a transaction value of between R2 000 and R30 000 that was awarded, without justification, to quotations which were not the lowest price in accordance with the municipality's SCM policy.

Supplier name	Description	Reference number	Amount
MLACO Trading Enterprise CC	Supply of sound system to Nkanyiso Hall	0413/107	4,000

Internal control deficiency

Controls to ensure that goods and services procured are in line with the applicable laws and regulations before approving were not always adhered to by management.

Recommendation

- Management must ensure that a route form is formulated where each step of the process should be signed off by the responsible official to ensure that all goods and service procured are in compliance with all the applicable laws and regulations. Furthermore, the route form will also assist to indicate the responsible official.
- The entire population needs to be investigated for similar non-compliance and all the irregular expenditure noted together with the above will have to be disclosed in the financial statements and the accounting officer will have to ensure that necessary steps as required by laws and regulations are followed.

Management response

Agree with the finding. Management will ensure that all wards made to the least cheapest bidder is justified before the order is issued or the award is made by the relevant person.

Name: FXH Mhlongo

Position: CFO

Date: 13 November 2013

Auditor's conclusion

Above form can be used to record the justification if applicable. Matter will be reported and followed-up during the quarterly interactions.

50. Suppliers not paid within 30 days

Audit finding

Contractual obligations and money owed municipality were not settled within 30 days or an agreed period, as required by section 65(2)(e) of the Municipal Financial Management Act (MFMA). From the sample of 102 that was requested, the following 13 goods and services were not paid within 30 days from receipt of the invoice in accordance with MFMA section 65(2)(e), resulting in a 13% non-compliance rate:

Suppliers name	Invoice Number	Invoice receipt date	Amount	Payment Date
Diners club Int	3613514596	05/06/2013	203 135.27	11/07/2013
Uluntu emerging contractors	hlm08	12/06/2013	237 249.50	08/07/2013
AS and T security	ast04/06	06/06/2013	82 637.66	08/07/2013
Jabula service	7286530	03/04/2013	2938.00	15/05/2013
quip supply services	67094	06/07/2012	3 924.20	24/08/2012
Bongani mishack buthulezi	repairs-	28/05/2012	5 500.00	10/08/2012
Bidvest	rbyrein0043839	01/03/2013	402.96	11/04/2013
reho communication	4265-waste service	14/11/2012	1 694.00	21/01/2013
zululand observer	in237414-advert	22/11/2012	2 759.39	21/01/2013
department of transport	17475	15/12/2012	1 500.00	22/02/2013
khulanathi office	119562	30/09/2012	3 082.75	23/11/2012
easibuild hardware	3755	21/09/2012	357.77	23/11/2012
reho communication	2411	11/07/2012	1 694.00	18/10/2012

Internal control deficiency

- There are no controls in place to ensure that delays are eliminated from the date of receipt of invoice and the certification by the responsibility manager.
- Controls to ensure that the dates of receipt of invoices are tracked to ensure that payment is processed within the legislated timeframe are not always adhered to.

Recommendation

- The entire population needs to be investigated for payments not made to suppliers within 30 days and this total provided to the auditors.
- Control should be formulated and implemented to ensure that delays are eliminated and disputes needs to be documented and attached to the voucher.

Management response:

Agree with the finding. Management will investigate and submit the report to auditors. We have developed the invoice register to record all invoices received and we can trace when the invoice was paid to monitor that all payments are paid within 30 days.

Name: FXH Mhlongo

Position: CFO

Date: 04 November 2013

Auditor's conclusion

Matter will be reported and followed-up during the quarterly interactions.

51. Investment property discrepancies

Audit Finding

The following investment property assets discrepancies were identified during the audit:

Currents year's depreciation and impairment totaling R1 823 (R2 416) as recoded in the annual financial statements is not recorded on the asset register, resulting in the difference being occur.

Internal control deficiency

- Reconciliation between the fixed asset register and the financial statements were not adequately performed.
- Financial statements were not adequately reviewed prior to submission for audit on whether they are correct and comply with the applicable GRAP standards.

Recommendation

- Differences noted should be investigated and responses submitted together with the supporting documentation for the above adjustments.
- Fixed asset register and financial statement should be updated accordingly
- Financial statements should be properly reviewed to ensure that they are correct and comply with GRAP standards before being submitted for audit.

Management response:

Agree with the findings. Differences between Trial Balance and AFS are caused by year end Journals posted to incorrect accounts. Trial Balance has been corrected and adjusting journals will be submitted to auditors. AFS will be reviewed properly by management to ensure they comply with GRAP standards.

Name: FXH Mhlongo

Position: CFO

Date: 28 October 2013

Auditor's conclusion

Updated trial balance and AFS were reviewed and the above differences still exist. Matter will be reported in the management report and followed-up during the quarterly interactions.

52. PPE restated balances misstated

Audit Finding

During the audit of restated prior year amounts the following differences were noted and no supporting documentation was made available on request to support these adjustments:

- (a) A review of the asset register also indicated that there was a land filled site amounting to R234 999.73, which was depreciated and impaired by R100 749.14 contrary to municipality asset management policy part 19.
- (b) Furthermore, this landfill site was not disclosed in the financial statement and there was no provision made for the rehabilitation of this site.
- (c) Buildings were restated by R45 970 however no supporting documents was made available in the regards.

Internal control deficiency

- Documentation is not properly kept to ensure that its readily available upon request.
- Financial statements were not adequately reviewed prior to submission for audit on whether they are correct and comply with the applicable GRAP standards.

Recommendation

- Differences noted should be investigated and responses submitted together with the supporting documentation for the above adjustments.
- Fixed asset register and financial statement should be updated accordingly.

Management response

Agree with the findings. Land fill site was not included in the AFS because the municipality does not have a land fill site. The amount in the FAR is the expenditure incurred for the

feasibility study for the development of the Land fill site. Journals processed to support restated amounts will be submitted to auditors. Management will correct the FAR and submit it to auditors.

Name: FXH Mhlongo

Position: CFO

Date: 13 November 2013

Auditor's conclusion

Above adjustments have not been made on the adjusted financial statements. Matter will be reported and followed-up during the quarterly interactions.

53. Intangible assets discrepancies

Audit Finding

The following intangible assets discrepancies were identified during the audit:

- (a) A difference of R2 901.51 was noted when comparing the intangible assets amount between the trial balance / general ledger and annual financial statements as depicted below:

Account number	Account name	Amount as per the trial balance / general ledger	Amount as per the financial statements	Difference
8500/8510/02/0201	Intangible Assets	862 385	875 140	-12 755
8500/8599/02/0201	Accumulated Dep. & Impairment loss	-370 111	-379 964	9 853
		492 274	495 176	- 2 902

- (b) Furthermore, it was noted that the above difference were processes as adjustments during the preparation of the annual financial statements to the opening balances however, no evidence could be submitted in support of journal processed:
- Amortisation amount was adjusted by 9 853
 - Cost amount was adjusted by 12 755
- (c) Furthermore, the following additions were included in the fixed asset register as 2012 additions, upon the inspection of supporting documentation as well as the comparison to the AFS it was noted that these assets were purchased in the current period:

Number	Description	Invoice Date	Amount
1.	GIS licence	24/08/2012	13 250

2.	P Office Pro plus 2010 software	11/04/2013	3 886.84
3.	P Office Pro plus 2010 software	21/05/2013	3 886.84
4.	P Office Pro plus 2010 software	24/05/2013	3 886.84
			24 910.52

Consequently, we could not confirm the whether the intangible asset were correctly disclosed in the financial statement.

Internal control deficiency

- Reconciliation between the fixed asset register and the financial statements were not adequately performed.
- Documentation is not properly kept to ensure that its readily available upon request.
- Financial statements were not adequately reviewed prior to submission for audit on whether they are correct and comply with the applicable GRAP standards.

Recommendation

- Differences noted should be investigated and responses submitted together with the supporting documentation for the above adjustments.
- Fixed asset register and financial statement should be updated accordingly.
- Financial statements should be properly reviewed to ensure that they are correct and comply with GRAP standards before being submitted for audit.

Management response:

Agree with the finding. Supporting documentation will be submitted to auditors for the Journal processed to correct the balances of intangible assets to agree the AFS to FAR. Corrections will be done for additions recorded as 2012 additions instead of 2013 additions and will update FAR and AFS. Management will review AFS properly to ensure that they comply with GRAP standards

Name: FXH Mhlongo

Position: CFO

Date: 28 October 2013

Auditor's conclusion

Above adjustments have not been made on the adjusted financial statements. Matter will be reported and followed-up during the quarterly interactions.

54. Road Infrastructure performance discrepancies

Audit Finding

During the audit the following discrepancies were noted relating to the road infrastructure audit that was performed:

- (a) The municipality does not have an approved policy in place for the planning, management and reporting of road infrastructure.
- (b) During the audit of the road infrastructure, it was noted that the municipality had not achieved its target(100%) for the maintenance of roads, the construction of new roads and the upgrading of roads
- (c) Based on the review of the Budget and SDBIP the municipality did not budget for planned maintenance in its operational budget.
- (d) The municipality does not have an approved road maintenance plan which clearly indicates the strategy to be followed for the financial year.

Internal control deficiency

- Processes to ensure the proper management of road infrastructure have not been developed and implemented by the accounting officer.
- Required policies and procedures have not been formulated.

Recommendation

- A road infrastructure management policy should be developed and implemented. This will include funding, planning (strategic & maintenance), backlogs and management information systems (MIS).
- Management should ensure that a maintenance plan is developed, approved and implemented.
- Construction of new roads and upgrading target / indicators should be set, and budgeted.
- Road maintenance target / indicators should be set, and budgeted for in the operational budget during the budget process
- Management should formulate the road asset management systems containing the following details:
 - description of the road infrastructure.
 - condition of the road infrastructure
 - life cycle of the roads
 - maintenance planning

- maintenance history
- backlogs

Management response

Agree with the finding. Management will develop an infrastructure management policy and implement it once it has been approved by council

Name: FXH Mhlongo

Position: CFO

Date: 04 November 2013

Auditor's conclusion

Matter will be reported and followed-up during the quarterly interactions.

55. Road Infrastructure spending

Audit Finding

A request was made to the municipality of the allocation schedule form National CoGTA to ascertain how much was allocated to be spent on new/upgrading of roads however, this schedule was not furnished. Consequently, I could not confirm if the municipality under/over spend against this allocation.

Internal control deficiency

Documentation is not properly kept to ensure that its readily available upon request.

Recommendation

Allocation schedule that was received from National CoGTA should be obtained and furnished to AGSA together with the details of all expenditure incurred in road infrastructure as well as the indicates how that expenditure was funded.

Management response

Schedule from COGTA will be submitted to auditor that indicates projects registered for implementation in 2012/2013 as well as the expenditure report incurred for road projects in 2012/2013.

Name: FXH Mhlongo

Position: CFO

Date: 13 November 2013

Auditor's conclusion

Schedule from COGTA not submitted as yet. Matter will be reported and followed-up during the quarterly interactions.

56. Leave gratuity misstatement

Audit Finding

A review of the leave gratuity indicated that the leave gratuity that was paid to the former CFO: Mr. BM Thusi was paid without deducting the applicable tax resulting in the overpayment to an employee amounting to R19 249.65.

Internal control deficiency

Inadequate reviews by management of the transactions prior to approving.

Recommendation

- Management need to investigate the overpayment, provide AGSA with the explanation and correct the financial statements.
- Furthermore, the debts need to be raised and recovered from the said employee.

Management response

Agree with the finding, but the leave gratuity pay out was not taxed because the former employee argued that why he must be taxed because he is no longer on the payroll of the municipality as he was already terminated on the payroll system. The money to be paid to him was not going to reflect to his IRP5 and he was not going to get any tax benefit from it. He said he will sort out his tax with SARS when he submits his tax returns.

Name: FXH Mhlongo

Position: CFO

Date: 08 November 2013

Auditor's conclusion

From the above response there is no follow-up performed by the municipality in ensuring that amount were declared according during the submission of the tax returns by the former employee. Matter will be reported and followed-up during the quarterly interactions.

57. Performance reviews not undertaken**Audit Finding**

Municipal Performance Regulations 28(1)(GNR 805) requires that the performance of the employee in relation to his or her performance must be reviewed on the following dates with the understanding that the reviews in the first and third quarter may be verbal if performance is satisfactory:

- First quarter - July to September
- Second quarter - October to December
- Third quarter - January to March
- Fourth quarter - April to June

Contrary to the above it was noted that the municipality did not conduct review on performance of the section 56/57 employees.

Internal control deficiency

Municipality does not have process to monitor and ensure compliance with the related laws and regulations.

Recommendation

- Management need to provide AGSA with the explanation.
- A compliance checklist needs to be formulated and reviewed to ensure future compliance with the related laws and regulations.

Management response:

Agree with the finding. Resignation of Senior Managers caused a huge confusion in the administration and it resulted to non-compliance with relevant legislations and regulations. Compliance check list will be developed and monitored to ensure compliance with related laws and regulations

Name: FXH Mhlongo

Position: CFO

Date: 08 November 2013

Auditor's conclusion

Matter will be reported and followed-up during the quarterly interactions.

58. No performance agreement for the staff

Audit Finding

It was confirmed that the municipality has not concluded any performance agreement for the for employees other than municipal managers and managers directly accountable to municipal managers as required by COGTA/SALGA Guidelines for the Development of a PMS policy Framework in Municipalities issued in August 2011

Internal control deficiency

Municipality does not have process to monitor and ensure compliance with the related laws and regulations.

Recommendation

- Management need to provide AGSA with the explanation.
- A compliance checklist needs to be formulated and reviewed to ensure future compliance with the related laws and regulations.

Management response:

Agree with the finding. The municipality did not conclude performance agreements for employees other than S56 employees because it did not have capacity to implement PMS for all employees. Management have plans to cascade PMS to section managers level in the 2013/2014 financial year because it does not have enough capacity to implement it to all employees at once.

Name: FXH Mhlongo

Position: CFO

Date: 08 November 2013

Auditor's conclusion

Matter will be reported and followed-up during the quarterly interactions.

59. Leave not supported**Audit finding**

The following discrepancies were noted relating to leave:

- (a) As per paragraph 6.4 of the Municipality leave policy, medical certificate from a registered medical practitioner must be submitted together with the sick leave application if an employee was absent from work for a period of two consecutive days on grounds of illness.

Contrary to the above the following leave was approved without sick notes being received:

No	Name of employee	Personnel Number	Date from	Date to	No. of days taken	Date of approval	Captured Date	Form no
1	XE Mdletshe	KZ274253	21/062013	2-Jul-13	7	26-Jun-13	27-Jun-13	1547
2	Ndimande Zothini	KZ272224	8-Jan-13	9-Jan-13	2	10-Jan-13	None	
3	PH Magagula	KZ274140	29-Apr-13	13-May-13	23	06-May-13	17-May-13	1636
4	Z Mnqayi	KZ274203	18-Feb-13	20-Feb-13	3	21-Feb-13	21-Feb-13	1421
5	B Cele	KZ274238	31-Jul-12	03/082012	4	06-Aug-12	13-Aug-13	1570
6	FXH Mhlongo	KZ274146	2-Apr-13	12-Apr-13	11	08-Apr-13	08-Apr-13	1606
7	VP Zulu	KZ274231	10-Dec-12	11-Dec-12	2	11-Dec-12	12-Dec-12	1377
8	Q Westhuizen	KZ274184	25-Mar-13	29-Mar-13	5	02-Apr-13	17-May-13	1615
9	BZ Buthelezi	KZ274209	11-Dec-12	14-Dec-12	4	11-Dec-12	12-Dec-12	1378
10	SS Dlamini	KZ274228	21-May-13	24-May-13	4	27-May-13	29-May-13	1511

- (b) The following special leave was approved without supporting documents being submitted:

(i) Maternity leave

No	Name of employee	Personnel Number	Date from	Date to	No. of days taken	Date of approval	Captured Date	Form no
1	N Zulu	KZ274240	1-Feb-13	30-Apr-13	89	07-Feb-13	01-Feb-13	1414

(ii) Study leave

No	Name of employee	Personnel Number	Date from	Date to	No. of days taken	Date of approval	Captured Date	Form no
1	S Sithole	KZ274261	6-May-13	6-May-13	1.00	03-May-13	17-May-13	1632
2	TS Nxumalo	KZ274222	20-May-13	20-May-13	1.00	17-May-13	29-May-13	1505
3	BM Thusi	KZ274105	29-Nov-12	11-Dec-12	9.00	28-Nov-12	05-Dec-12	1358

(c) Furthermore, there was no evidence noted upon the review of employees leave files to confirm that the municipality has processes and procedures in place whereby sick leave can be monitored and patterns/trends in the employee utilization of sick leave is identified and followed-up.

Internal control deficiency

Processes and procedures to monitor sick leave were not applied as per the Municipality leave policy.

Recommendation

- A medical certificate from a registered medical practitioner must be submitted together with the sick leave application.
- Leave that was taken contrary to the requirement must be converted to unpaid leave and such monies be recovered from the said employees
- The supervisory staff must draw leave reports on a monthly basis, analysed them and any sign of abuse must be followed-up and reported accordingly

Management response

Agree with the finding. Management will investigate the issues raised and corrective measures will be taken and where no proof is submitted monies will be recovered from the said employees.

Name: FXH Mhlongo

Position: CFO

Date: 13 November 2013

Auditor's conclusion

Matter will be reported and followed-up during the quarterly interactions.

60. High senior management vacancy rate

Audit Finding

The municipal systems act 67(1)(a) states that “a municipality, in accordance with applicable law and subject to any applicable collective agreement, must develop and adopt appropriate systems and procedures, consistent with any uniform standards prescribed in terms of section 72 (1) (c), to ensure fair, efficient, effective and transparent personnel administration, including the recruitment, selection and appointment of persons as staff members”

During the audit it was noted that the current year senior management vacancy rate increased from the previous year. The vacancy rate in the current year is 75% compared to 0% in the previous year.

Internal control deficiency

Management did not ensure that procedures to minimize the high vacancy rate were efficiently implemented.

Recommendation

The accounting officer should ensure that effective recruitment practices are implemented as per section of the municipal systems act.

Management response:

Agree with the finding. Resignation of 4 senior managers during the 2012/2013 financial year was a result of the increase of vacancy rate. 3 vacancies of senior managers were filled during the 1st quarter of 2013/2014.

Name: FXH Mhlongo

Position: CFO

Date: 13 November 2013

Auditor's conclusion

Matter will be reported and followed-up during the quarterly interactions.

61. Related parties unsupported

Audit finding

In terms of GRAP 20, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, or if the related party entity and another entity are subject to common control. Related parties include:

- a. Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the reporting entity;
- b. Associates;
- c. Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;
- d. Key management personnel, and close members of the family of key management personnel; and
- e. Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in (c) or (d), or over which such a person is able to exercise significant influence.

No evidence could be provided on request for the related party that the disclosed in the financial statements amounting to R3 804. Consequently, we could not verify if this amount disclosed meets the definition and was accurately disclosed.

Internal control deficiency

The chief financial officer did not adequately review the financial statements that were submitted for audit to ensure fair presentation.

Recommendation

- All items disclosed in the AFS need to be appropriately supported with documentation and such documentation should be made available to AGSA.
- Furthermore, the following disclosure requirements must be adhered to:
 - the nature of the related party relationships,



- the types of transactions that have occurred
- the elements of the transactions necessary to clarify the significance of these transactions to its operations and sufficient to enable the financial statements to provide relevant and reliable information for decision making and accountability purposes.

Management response

The amount disclosed in AFS of R3 804.00 is for Industrial Council that is deducted from employees and paid over to SALGA. Payment vouchers will be submitted to auditors that support the amount of R3 804.00

Name: FXH Mhlongo

Position: CFO

Date: 13 November 2013

Auditor's conclusion

Matter will be reported and followed-up during the quarterly interactions.

62. VAT incorrectly disclosed

Audit finding

Accounting policy 1.21 states that "the net output VAT on debtors where money has not been received or creditors where payment has not yet been made is disclosed separately in the statement of financial position in terms of GRAP 1"

During the audit of the VAT control account, it was noted that the financial statements reflect a VAT payable amount of R94 629 whereas the VAT return form for June 2013 reflect a receivable amounting to R323 766, resulting in the unexplained difference being noted. Consequently, the VAT amount was incorrect disclosed in the financial statements.

Internal control deficiency

The chief financial officer did not adequately review the financial statements that were submitted for audit to ensure fair presentation.

Recommendation

- Management should ensure that the VAT transactions in the general ledger are correctly recorded and disclosed in the financial statements



- Furthermore the financial statements must be adequately reviewed prior submission.

Management response

Difference noted by auditors will be investigated and AFS will be adjusted correctly when the differences have been adjusted.

Name: FXH Mhlongo

Position: CFO

Date: 13 November 2013

Auditor's conclusion

Matter will be reported and followed-up during the quarterly interactions.

ANNEXURE C: ADMINISTRATIVE MATTERS

No matters

FINANCIAL INDICATORS

ANNEXURE D

The analyses on which the financial indicators and discussion in *PART D – FINANCIAL INDICATORS* under *SECTION 3: SPECIFIC FOCUS AREAS* are based are set out below.

BUDGET MANAGEMENT

	Indicator reference	Financial statement amounts R'000	Adjustments for material uncorrected misstatements R'000
Final approved operating expenditure budget		48,856,792	9,309,213
Under/(over) spending of the final approved operating expenditure budget		-5,804,944	8,900,550
Final approved capital budget		11,915,000	-6,700,703
Under/(over) spending of the final approved capital budget		-553,356	-6,700,703
Percentage over spending of the final approved operating expenditure budget	1.1		
Percentage under spending of the final approved capital budget	1.2		

GRANT MANAGEMENT

	Indicator reference	Financial statement amounts R'000	Adjustments for material uncorrected misstatements R'000
Conditional grants received		27,728,000	
Under/(over) spending of conditional grants received		11,649,294	
Percentage under-spending of conditional grants received	2.1		

EXPENDITURE MANAGEMENT

	Indicator reference	Financial statement amounts R'000	Adjustments for material uncorrected misstatements R'000
Accounts payable from goods and services purchased on credit		2,159,349	
Total purchases from goods and services purchased on credit for the year		26,491,250	
Creditor-payment period (Accounts payable ÷ Total purchases x 365)	3.1		

REVENUE MANAGEMENT

	Indicator reference	Financial statement amounts R'000	Adjustments for material uncorrected misstatements R'000
Accounts receivable from goods and services rendered on credit (before impairment)		1,855,573	-5
Debtors impairment provision at year-end (In respect of accounts receivable from goods and services rendered on credit)		1,101,472	-32
Total revenue from goods and services rendered on credit for the year		2,883,327	
Debtor-collection period - before impairment (Days)	4.1		
Debtor-collection period - after impairment (Days)	4.2		
Debtors impairment provision at year-end as a percentage of accounts receivable from goods and services rendered on credit	4.3		
Debtors impairment provision at year-end as a percentage of revenue from goods and services rendered on credit	4.4		

ASSET AND LIABILITY MANAGEMENT

	Indicator reference	Financial statement amounts R'000
Total revenue for the year		5,209,467
Less: Total expenditure for the year		54,661,736
Surplus / (deficit) for the year	5.1	-2,567,059
<hr/>		
Total current assets		7,604,926
Less: Total current liabilities		16,883,203
Net current assets / (liabilities)	5.2	-9,278,277
<hr/>		
Total non-current assets		80,313,313
Less: Total non-current liabilities		932,149
Net non-current assets / (liabilities)		79,381,164
<hr/>		
Total assets		87,918,239
Less: Total liabilities		17,815,352
Net assets / (liabilities)	5.3	70,102,887
<hr/>		
Year-end carrying amount of the category(ies) of PPE that were subject to impairment		40,496,266
Plus: Year-end carrying amount of the category(ies) intangible assets that were subject to impairment		0
		40,496,266
<hr/>		
	Indicator reference	Financial statement amounts R'000
Year-end carrying amount of investments, if subject to impairment		0
Plus: Year-end carrying amount of loan receivables (loans awarded), if subject to impairment		0
		0
<hr/>		
PPE impairment provision at year-end		4,251,974
Plus: Intangible assets impairment provision at year-end		0
		4,251,974
<hr/>		

Investments impairment provision at year-end

0

Plus: Loan receivables (loans awarded) impairment provision at year-end

0

0

PPE and intangible assets impairment provisions at year-end as a percentage of the carrying amount of the category(ies) of PPE and intangible assets subject to impairment

5.4

Loan receivables (loans awarded) and investments impairment provisions at year-end as a percentage of the carrying amount of investments and loans subject to impairment

5.5

CASH MANAGEMENT

Cash and cash equivalents / (bank overdraft) at year-end

6.1

**Financial statement
amounts**

R'000

6,207,314

Net cash flows for the year from operating activities

6.2

9,947,294

Operating expenditure

54,661,736

Unspent conditional grants received at year-end

11,649,294

Long term employee benefit obligations

0

**Financial statement
amounts**

Cash and cash equivalents as a percentage of operating expenditure

6.3

Creditors as a percentage of cash and cash equivalents

6.4

Percentage by which unspent conditional grants received exceeds cash available at year-end

6.5

Current liabilities as a percentage of net cash inflows for the year from operating activities

6.6

Long-term debt as a percentage of net cash inflows for the year from operating activities

6.7

Employee benefit obligation as a percentage of net cash inflows for the year from operating activities

6.8

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL
LEGISLATURE AND COUNCIL ON HLABISA MUNICIPALITY**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Hlabisa Municipality set out on pages ... to ..., which comprise, the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified audit opinion

Property, plant and equipment

6. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for property, plant and equipment. As described in note 8 to the financial statements, the restatement was made in order to rectify a prior year misstatement. I was unable to confirm the restatement amounting to R7,44 million by alternative means. Consequently I was unable to determine whether any adjustment to the property, plant and equipment corresponding figure stated at R72,39 million in the financial statements was necessary.
7. The municipality did not estimate the recoverable service amount of the assets that were impaired in accordance with Standard of GRAP 21, *Impairment of assets*. Impairment amounting to R4,25 million was included in the financial statements. I was unable to determine the correct amount of impairment as it was impracticable to do so. Consequently I was unable to determine whether any adjustment relating to property, plant and equipment stated at R72,39 million, in the financial statements was necessary.
8. The municipality reviewed the residual values and useful lives of infrastructure assets at each reporting date in accordance with Standard of GRAP 17, *Property, plant and equipment*. The change was not correctly accounted for as a change in an accounting estimate in accordance with the Standard of GRAP 3, *Accounting policies, changes in accounting estimates and errors*. Consequently, the infrastructure assets and accumulated depreciation were overstated by R594 860 (2012:R1,62 million).

Accumulated surplus

9. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for accumulated surplus. As described in note 41 to the financial statements, the restatement was made in order to rectify a prior year misstatement. I was unable to confirm the restatement by alternative means. Consequently I was unable to determine whether any adjustment to the accumulated surplus corresponding figure stated at R70,58 million in the financial statements was necessary.

Cash flow

10. Presentation of a cash flow statement, summarising the entity's operating, investing and financing activities, is required by Standard of GRAP 2, *Cash flow statements*. The net cash flows from operating activities and the cash and cash equivalents are overstated by R1,73 million in the cash flow statement.

Receivables

11. The account receivable balance of R1,10 million as disclosed in note 3 and 5 to the financial statements, does not agree to the balance of R1,82 million as per the age analysis. The municipality did not reconcile the difference of R721 399 between the financial statements and the underlying accounting records. Consequently, the account receivable balance is overstated and provision understated by R721 399.

12. Included in accounts receivable is an impairment balance of R247 621 as disclosed in note 3 and 5 to the financial statements, which does not agree to the balance as per the source document amounting to R1,10 million. The municipality did not reconcile the difference of R856 852 between the financial statements and the underlying accounting records. Consequently, debt impairment is understated and the accounts receivable balance is overstated by R856 852.

Opinion

13. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Hlabisa Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

14. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Irregular expenditure

15. As disclosed in note 29 to the financial statements, irregular expenditure amounting to R7,71 million was incurred during the year, as a result of contravention of Municipal Supply Chain Management Regulations.

Unauthorised expenditure

16. As disclosed in note 30 to the financial statements, unauthorised expenditure amounting to R18,47 million was incurred during the year, as a result of utilisation of the conditional grants for municipal operations and over expenditure within the municipal votes.

Restatement of corresponding figures

17. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of an error discovered during 30 June 2013 in the financial statements of the Hlabisa Municipality at, and for the year ended, 30 June 2012.

Additional matter

18. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

19. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

20. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

21. The annual performance report included in the annual report was not presented in time for audit and consequently my findings below are limited to the procedures performed on the strategic planning and performance management documents.

22. The information was assessed to determine whether performance indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information (FMPPPI)*.

23. The material findings are as follows:

Usefulness of information**Measurability****Performance targets not specific**

24. The *FMPPI* requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 49% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.

Performance targets not measurable

25. The *FMPPI* requires that performance targets be measurable. The required performance could not be measured for a total of 54% of the targets. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.

Performance targets not time bound

26. The *FMPPI* requires that the time period or deadline for delivery be specified. A total of 97% of the targets were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.

Performance indicators not well defined

27. The *FMPPI* requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 36% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.

Compliance with laws and regulations

28. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

Strategic planning and performance management

29. The annual performance report for the year under review does not include the performance of the municipality, performance of each external service provider, a comparison of the performance with set targets, a comparison with the previous financial year, and measures taken to improve performance, as required by section 46(1) of the Municipal Systems Act (MSA).

30. The municipality did not afford the local community at least 21 days to comment on the final draft of its integrated development plan before the plan was submitted to council for adoption, as required by Municipal Planning and Performance Management Regulation 15(3).

Budgets

31. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements, performance and annual reports

32. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a qualified audit opinion.

Audit committees

33. The audit committee did not advise the council on matters relating to performance management and performance evaluation as required by section 166(2)(a) of the MFMA.

Procurement and contract management

34. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) and (c).
35. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
36. Quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
37. Quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.

Human resource management and compensation

38. The municipal manager and senior managers directly accountable to the municipal manager did not sign performance agreements by 31 July 2012, as required by section 57(2)(a) of the MSA.
39. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by the Regulations on Minimum Competency Levels regulation 14(2)(b).

Expenditure management

40. Reasonable steps were not taken to prevent unauthorised, irregular, fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Revenue management

41. A credit control and debt collection policy was not adopted and implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of MFMA.

Asset management

42. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

Liability management

43. Short-term debt was not repaid within the financial year, as required by section 45(4)(a) and (b) of the MFMA.

Consequences management

44. Unauthorised, irregular, Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2)(a)(ii) and (b) of the MFMA.

Internal control

45. I considered internal control relevant to my audit of the financial statements, performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the performance report and the findings on compliance with laws and regulations included in this report.

Leadership

46. The vacancies in leadership positions impacted on the effectiveness of leadership at the municipality. Leadership did not ensure that personnel have an in-depth understanding of the requirements and therefore the policies and procedures were not effectively applied or monitored.

Financial and performance management

47. The monitoring of compliance with laws and regulations and with municipal policies and procedures was ineffective during the year under review. This resulted in errors in daily and monthly processing, and in the preparation of the financial statements. These errors were not detected and corrected on a timely basis. In addition, compliance with laws and regulations was not adequately monitored.
48. Performance report was not prepared and submitted in time for auditing.

Governance

49. Municipality did not effectively implement the recommendation of the internal audit resulting in the misstatement risks not being mitigated. Furthermore, the audit committee could not effectively discharge their responsibility in the performance evaluation and management due to the limitation imposed by management.

Pietermaritzburg

30 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

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